Distr.
GENERAL

GC.8/5
IDB.21/15
20 April 1999

United Nations Industrial Development Organization

ORIGINAL : ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November - 3 December 1999

Industrial Development Board

Twenty-first session
Vienna, 23-25 June 1999
Item 5 of the provisional agenda

INDUSTRIALIZATION OF THE LEAST DEVELOPED COUNTRIES

Report by the Director-General

Reports on the progress of implementation of General Conference resolution GC.7/Res.4, in compliance with paragraph 4 of that resolution.

Introduction

1. This document is presented in accordance with the request of the General Conference to submit to its eighth session, through the Industrial Development Board, a progress report on the implementation of resolution GC.7/Res.4. It should be considered in conjunction with the progress report on the implementation of the least developed countries (LDC) programme issued to the Board at its nineteenth session (IDB.19/8) as well as the Annual Report of UNIDO 1998 (IDB.21/10, chap. III.C, and IDB.21/11, appendix D).

I. COUNTRY-SPECIFIC ACTIVITIES

2. As a follow-up to the joint communiqué signed by the Director-General and the Minister of National Industry of Sudan (Vienna, November 1998), a UNIDO multi-disciplinary team visited Sudan in December 1998 and held intensive discussions with government authorities as well as with counterparts in the public and private sector. The result was the identification and formulation of the large-scale integrated programme for capacity-building to enhance industrial competitiveness and sustainability in Sudan, with emphasis on small and medium enterprises and agro-industries. The programme is valued at $7.09 million.

3. As an essential prerequisite to the development of integrated programmes, preparations are under way for formulation missions to a further 10 LDCs . The countries envisaged are Burundi, Ethiopia, Eritrea, Lao People's Democratic Republic, Lesotho, Mali, Mozambique, Madagascar, Togo and Yemen, for which team missions are foreseen from April to July 1999. A total of $35 to $40 million is expected to be programmed for these countries for funding by potential donors.

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V.99-83104 (E)

Distr.: 11 May 1999

4. UNIDO is awaiting official approval from the United Nations Development Programme for a preparatory assistance project for the formulation of an industrial development strategy for Lao People's Democratic Republic. This SPPD (support services for policy and programme development) project will include an industrial sector review, which could constitute a major input for the UNIDO integrated programme to be developed in June 1999 for that country.

5. In cooperation with the International Jute Organization, a new project has been developed in Bangladesh for UNIDO execution that will focus on the bio-technological application of enzymes for making pulp and paper from green jute/kenaf. Approved for financing by the Common Fund for Commodities, the European Union and the Government of France ($1.5 million), the project will lead to sustained demand for raw jute, thereby safeguarding the interests of a large number of jute farmers.

6. Implementation has just started of a project on pollution control and treatment of tannery effluents in Dhaka, Bangladesh, funded by the Government of Switzerland (over $650,000). The project aims at assisting the leather industry in reducing environmental degradation through the management of waste and chemicals, reduction of overall water consumption, and design of a common effluent treatment plant for the Hazaribagh tannery cluster, and includes an environmental impact assessment study.

7. Implementation of a project on the establishment of tannery effluent treatment facilities in Nepal, funded by the Government of Austria (over $600,000), is entering its final stage. As part of the UNIDO regional programme of pollution control in the tanning industry in South-East Asia, the project is aimed at introducing environment friendly processes to private sector tanneries.

II. REGIONAL AND GLOBAL ACTIVITIES

8. Within the framework of a regional preparatory assistance project being considered for financial approval under a special-purpose contribution to the Industrial Development Fund (IDF), a survey will be made to assess the needs of six African LDCs (Benin, Central African Republic, Chad, Mali, Niger, Togo) for investment promotion activities. Based on the results of the needs assessment, integrated programmes for each country will be prepared for further consideration under trust fund resources.

9. A training seminar is being arranged for 15 participants from eight African countries (including six LDCs) on food safety in fruit and vegetable processing in Budapest in October 1999. Financed under Hungary's voluntary contribution to IDF, the seminar will provide a complementary input to UNIDO's integrated programmes already approved for Uganda and the United Republic of Tanzania, as well as those being prepared for Ethiopia, Mozambique and Zimbabwe.

10. A regional project on the improvement of good manufacturing practices in the manufacture of essential drugs in African countries, including four LDCs (Eritrea, Ethiopia, Uganda and the United Republic of Tanzania), was recently approved under the voluntary contribution of Hungary to IDF ($76,000). The project provides a one-month study tour for production and quality assurance managers from essential drugs manufacturing enterprises and drug inspectors to a small-scale generic pharmaceutical manufacturer in Hungary.

11. UNIDO is actively involved, together with other agencies such as the Multilateral Investment Guarantee Agency, United Nations Development Programme, United Nations Office for Project Services, United Nations Economic Commission for Africa and United Nations Conference on Trade and Development, in the preparation of an Asia-Africa Business Forum to be convened in Malaysia in November 1999. The Forum will serve as a platform to enhance international partnership through investment, *inter alia*, in the industrial sector in African countries, including the 33 LDCs.

12. As a related activity, UNIDO is currently finalizing a project document on the establishment of an Asian-African investment and technology promotion centre in Malaysia, in accordance with a concept adopted by the Tokyo International Conference on African Development (TICAD-II) at Tokyo in October 1998 and announced by the Prime Minister of Japan on that occasion. Financed by Japan under a trust fund arrangement and executed by UNIDO, the project will promote and encourage private sector investment from Asia to Africa, including African LDCs. Utilizing trust funds contributed by the Government of Japan (approximately $850,000), UNIDO will play a leading role by providing relevant investment promotion information in Africa, dispatching Asian industrial specialists to Africa and holding seminars for investment promotion officers from African countries as well as Asian businessmen. As part of its activities, the centre will develop a website/database on investment and technology transfer information in Africa for dissemination to Asian countries aimed at generating investment flows to African countries.

III. ACTION REQUIRED OF THE BOARD

13. The Board may wish to take note of the information contained in the present document.

Distr.
GENERAL

GC.8/6
IDB.21/18
28 April 1999

United Nations Industrial Development Organization

ORIGINAL : ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November - 3 December 1999

Industrial Development Board

Twenty-first session
Vienna, 23-25 June 1999
Item 5 of the provisional agenda

IMPLEMENTATION OF THE BUSINESS PLAN IN AFRICA

Report by the Director-General

In compliance with decision IDB.20/Dec.10, reports on the implementation of the Business Plan in African countries.

1. In its decision IDB.20/Dec.10, the Industrial Development Board focused on a number of issues within the context of the new UNIDO service modules and their application in Africa. The present document provides information on developments in that respect. The text should be considered in conjunction with the report on the Industrial Development Decade for Africa (IDDA) submitted to the Board at its twentieth session (IDB.20/12), which addressed specifically the concerns of the General Conference raised in resolution GC.7/Res.5. In this connection, efforts have been made to align the priorities and focus of the programme for IDDA with the Business Plan and the new UNIDO service modules.

I. DEVELOPMENT OF INTEGRATED PROGRAMMES

2. With the completion of the programmatic transformation in September 1998, the Secretariat launched the first effort to translate the new service modules into concrete programmes at the country level. The new approach required that programmes be demand driven and consist of integrated services tailored to solve specific problems identified by clients in both the public and private sectors. The scope of programmes covered priorities and needs identified under the plan of action of the Alliance for Africa's Industrialization (AAI) and the United Nations Development Assistance Framework (UNDAF).

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V.99-83431 (E)

Distr.: 7 May 1999

3. In developing the integrated programmes a number of guiding principles have been followed in order to ensure consistency with the Business Plan and coherence between the integrated programmes and development priorities of the beneficiary countries. These principles include:

(a) Programmes must be demand-driven;

(b) Local ownership and sustainability must be ensured;

(c) Innovative combinations of service modules provide integrated solutions.

4. In the first phase of programme formulation which commenced in September 1998, IDDA supplementary funds were utilized to finance programming missions in eight countries (including seven LDCs), namely Burkina Faso, Guinea, Kenya, Morocco, Rwanda, Sudan, Uganda and the United Republic of Tanzania. A mission was also undertaken to Algeria financed by funds from the Regular Programme of Technical Cooperation. This phase resulted in a portfolio of programmes valued at about $51.3 million for these countries (annex, table 1). The second phase of programme formulation commenced in the first half of 1999 covering six countries (Côte d'Ivoire, Ethiopia, Ghana, Mozambique, Senegal and Tunisia). A third phase of programme formulation is anticipated to commence in July of 1999 in another 11 countries (Burundi, Cameroon, Egypt, Eritrea, Lesotho, Madagascar, Mali, Namibia, Nigeria, Togo and Zimbabwe) (annex, table 2).

5. Consistent with the Business Plan the finalized programmes have focused on promoting sustainable private sector-led industrial development through a combination of:

(a) **Upstream activities to enhance capacity-building both within government and private sector institutions for industrial policy formulation, implementation and monitoring.** The goal is to complement macro-economic stabilization and adjustment programmes with micro-level efforts to reduce market failures and eliminate supply-side rigidities;

(b) **Institution building through knowledge-transfer and enhancement of general managerial and entrepreneurial skills.** The goal is to improve the functioning of technical institutions, industrial service providers, industrial associations and enterprise managers;

(c) **The development of technological capabilities at the enterprise level in order to enhance the competitiveness of industrial sectors, industrial expansion and job creation.** In this connection, UNIDO has combined its unique technical and sectoral expertise with technical cooperation provided by other multilateral and bilateral agencies to enhance technological upgrading of industry and facilitate the adoption of production processes consistent with new global standards for quality, cleaner production and energy efficiency in small and medium enterprises (SMEs).

II. FUNDS MOBILIZATION

6. By the end of 1999 it is anticipated that integrated programmes would have been completed in 27 countries in the whole of Africa (over half the countries in the continent). These include 15 LDCs, accounting for 56 per cent of the total number of African countries covered by the formulation of integrated programmes. This would yield a large portfolio of integrated programmes for which funds would have to be mobilized. Effective funds mobilization will require collective effort by donors, beneficiary countries and UNIDO. An active funds mobilization process has been launched at the country level and in the capitals of major donors. The Secretariat hopes that the Permanent Missions accredited to UNIDO will take a pro-active stance in support of this effort.

7. To date, in addition to financing programme development costs, UNIDO has utilized $5.17 million of its programmable resources (from IDDA and the Danish contribution to the Industrial Development Fund) to initiate the implementation of the integrated programmes in sub-Saharan Africa. Under the leadership of beneficiary countries, active funds mobilization measures will continue during 1999 and 2000 focusing on the following elements:

- Country-level funds mobilization by beneficiary countries through resource mobilization meetings for local representatives of donor countries and institutions;
- Programmes tailored to address priorities agreed upon by donors and beneficiary countries under existing bilateral cooperation frameworks;
- Inter-agency formulation of programmes with appropriate co-financing arrangements under UNDAF and the United Nations Special Initiative for Africa (UNSIA);

- A conference on industrial partnerships to be organized by UNIDO, OAU, ECA and ADB in September/October 1999. As part of this conference, ADB and UNIDO will sponsor a study on establishing new funding mechanisms for SME development;

- Promotional visits to donor countries;

- Establishment of investment partnerships with private sector foundations in donor countries and private sector involvement in programme design and implementation where possible.

III. GLOBAL FORUM ROLE

8. The Secretariat will strengthen its global forum activities in Africa in cooperation with the Conference of African Ministers of Industry (CAMI), OAU, ECA, the AAI Steering Committee and Patrons Group and other regional organizations. In this connection, the Organization will play a greater role in furthering an understanding of the industrial development problems in Africa and their complex linkages with social development and environmental sustainability. Also, in the light of the recent financial and economic crises in some Asian, Eastern European and Latin American economies, there is a clear need for revisiting key assumptions about economic development that have dominated policy debates in the last two decades, including the reinstatement of industry on the international development agenda. UNIDO will establish partnerships with selected research institutes and eminent scholars to regularly analyse and provide information on these emerging issues.

9. The Secretariat will endeavor to identify state-of-the-art advances in industrialization and stimulate debate in that regard. In LDCs and African countries in particular there is a serious concern about market access as trade preferences erode, and the impact of globalization on de-industrialization, unemployment and deepening poverty. There is also the need to enhance understanding of the supply-side rigidities and market failures that constrain industrial expansion and the adjustment of firms to new production standards. These issues will be addressed in the regional forum and conference on industrial partnership organized as parallel events to the fourteenth session of CAMI scheduled to take place at Dakar, Senegal in October 1999. The results of the CAMI session will be the subject of a separate report to the General Conference.

IV. STRENGTHENING THE FIELD

10. Progress has been made in the further strengthening of the field offices both in terms of allocation of additional financial and human resources. The period of 1999 will result in the establishment of regional offices and this will be carried forward also in the years 2000 and 2001. Actions taken and planned by the Secretariat have been reported in document IDB.21/19.

V. ACTION REQUIRED OF THE BOARD

11. The Board may wish to take note of the information provided in the present document.

Annex

INTEGRATED PROGRAMMES - COUNTRY COVERAGE IN AFRICA

Table 1. Integrated programmes formulated

			Value (US$)
1	Algeria		11,442,000
2	Burkina Faso	LDC	4,086,210
3	Guinea	LDC	4,795,500
4	Kenya		1,500,000
5	Morocco		8,929,000
6	Rwanda	LDC	5,314,000
7	Sudan	LDC	7,089,330
8	Uganda	LDC	3,902,500
9	United Republic of Tanzania	LDC	3,824,000
TOTAL			**50,882,540**

Table 2. Integrated programming missions

April - June 1999	Côte d'Ivoire	
	Ethiopia	LDC
	Ghana	
	Mozambique	LDC
	Senegal	
	Tunisia	
July - September 1999	Burundi	LDC
	Cameroon	
	Egypt	
	Eritrea	LDC
	Lesotho	LDC
	Madagascar	LDC
	Mali	LDC
	Namibia	
	Nigeria	
	Togo	LDC
	Zimbabwe	

Distr.
GENERAL

GC.8/6/Add.1
IDB.21/18/Add.1
27 May 1999

United Nations Industrial Development Organization

ORIGINAL : ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November-3 December 1999

Industrial Development Board

Twenty-first session
Vienna, 23-25 June 1999
Item 5 of the provisional agenda

IMPLEMENTATION OF THE BUSINESS PLAN IN AFRICA

Addendum

Conference on Industrial Partnerships and Investment in Africa

Report by the Director-General

1. Chapter II of the report on implementation of the Business Plan in Africa (GC.8/6-IDB.21/18) referred to a number of funds mobilization measures, including the Conference on Industrial Partnerships and Investment in Africa. This addendum provides further information on preparations for that event.

2. The Government of Senegal has indicated its readiness to host the Conference on Industrial Partnerships and Investment. It is therefore anticipated that the Conference will take place in Dakar, Senegal, from 20 to 21 October 1999, in conjunction with the fourteenth meeting of the Conference of African Ministers of Industry (CAMI XIV), to be held from 22 to 23 October 1999.

3. The Conference is being organized by UNIDO, the African Development Bank, the United Nations Economic Commission for Africa (ECA) and the Organization of African Unity (OAU), in pursuance of the Declaration of the OAU Assembly of Heads of State and Government adopted in Harare, Zimbabwe in June 1997, which was subsequently reiterated by the United Nations General Assembly in December 1997, through its resolution 52/208. That resolution, *inter alia*, "Invites donor countries, United Nations funds and programmes, all relevant United Nations organizations and the private sector to participate in a meeting of donors to be organized by the United Nations Industrial Development Organization in collaboration with the Economic Commission for Africa, the United Nations Development

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V.99-84424 (E) (a:\1999\pmo.1)

Distr.: 28 May 1999

Programme and the Organization of African Unity, under the leadership of the African Development Bank and in cooperation with the World Bank".

4. The Steering Committee of the Alliance for Africa's Industrialization at its first meeting held in Abidjan in September 1998 decided that the donors' meeting should be organized as a conference on industrial partnerships and investment in Africa, in the period between June and October 1999, to address industrial development concerns broader than the mobilization of funds alone. The executive heads of the African Development Bank, ECA and OAU decided in February 1999 to establish a task force with UNIDO to prepare and organize the Conference.

5. The Conference will consist of two interrelated forums:

- A forum to discuss issues related to industrial development, partnerships and investment in Africa, including the financing of small and medium industries;
- A forum to identify and mobilize resources and to decide on the measures to be taken for financing the technical cooperation programmes recently formulated in cooperation with African countries, and in the context of the Alliance for Africa's Industrialization, for the development of the industrial sector in those countries. This forum will also offer an opportunity to confirm commitments already made towards the financing of these programmes.

6. In line with the new emphasis of the Conference on the promotion of industrial partnerships, it is also anticipated that the first bi-regional (Africa-Latin America and Caribbean) business seminar of the Latin American Economic System will be held in Dakar from 18 to 19 October 1999, in the margin of the Conference on Industrial Partnerships and Investment in Africa. The objective is to encourage the exchange of experience on strategies and business partnerships between selected countries of Latin America and the Caribbean and African countries, in the context of economic and technical cooperation in developing countries.

Distr.
GENERAL

GC.8/7
IDB.21/20
5 May 1999

United Nations Industrial Development Organization

ORIGINAL : ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November - 3 December 1999

Industrial Development Board

Twenty-first session
Vienna, 23-25 June 1999
Item 5 of the provisional agenda

ARAB COUNTRIES PROGRAMME, INCLUDING TECHNICAL ASSISTANCE TO THE PALESTINIAN PEOPLE

Report by the Director-General

Reports on the implementation of General Conference resolution GC.7/Res.7, in compliance with paragraph 4 of that resolution.

Introduction

1. Resolution GC.7/Res.7 stressed the need for the Arab countries to enhance their industrial capacities and develop their industrial human resources. Special emphasis was placed on the need to support the least developed Arab countries as well as to strengthen regional industrial cooperation. Requests addressed to the Director-General in the resolution concerned (a) mobilization and diversification of financial and other resources for the Regional Programme; (b) cooperation with the Palestine Liberation Organization and other regional organizations; (c) technical assistance to the Palestinian people; and (d) securing additional resources from development finance institutions. The present document reports on progress made in the implementation of those requests.

I. RESOURCES FOR REGIONAL PROGRAMME

2. A significant development in resources allocated in support of the Arab countries occurred within the framework of field representation. UNIDO's presence in the region strengthened considerably in 1998 through the opening of two new UNIDO country offices (Algiers and

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V.99-83516 (E)

Distr.: 10 May 1999

Cairo). The existing offices in Beirut (covering Jordan, Lebanon and the Syrian Arab Republic) and Khartoum (covering Djibouti, Sudan and Yemen) were maintained, while the office in Tunis was relocated to Algiers in connection with the re-opening of the UNIDO country office in Algeria. Negotiations are at an advanced stage for the opening of an office in Rabat, Morocco, with the understanding that local costs will be borne by the host country. Furthermore, the Government of Tunisia has expressed interest in covering local costs for the re-opening of a UNIDO office in Tunis, which would also cover investment promotion.

3. As an early step in the preparation of high impact, integrated technical cooperation programmes, a number of missions composed of multi-disciplinary teams were launched in 1998 and 1999. The missions covered Algeria (September 1998), Morocco (October 1998), Saudi Arabia (February 1999), Sudan (December 1998), Tunisia (March 1999), Palestine (March 1999) and Yemen (April 1999). As a direct result, seven large-scale integrated programmes are being formulated. Similar missions are planned in 1999 for Egypt, Jordan, Kuwait, Lebanon, Syrian Arab Republic and the United Arab Emirates.

4. UNIDO has been working closely with recipient countries to identify sources of financing for integrated programmes in the region. Sufficient funds have been secured from bilateral sources to initiate the programme for Tunisia. Other approaches being pursued include self-financing and inter-agency programmes with co-financing.

II. COOPERATION WITH REGIONAL ORGANIZATIONS

5. The Director-General headed the UNIDO delegation which actively participated in the eighth Conference for the Industrial Development of the Arab Countries (Damascus, June 1998), the objective of which was to agree on common policies and strategies for the industrial development of, and cooperation between, the Arab countries. The Conference had been prepared under a joint UNIDO/AIDMO project, for which a joint follow-up is under consideration.

6. With a view to strengthening cooperation at the regional level, a joint communique on UNIDO/ESCWA/AIDMO cooperation is being initiated. Priority areas addressed include the strengthening of the region's industrial capacity through investment and technology promotion; global forum activities; industrial policies and strategies; cleaner production; industrial information; small and medium enterprises; metrology, standardization, certification and accreditation.

7. In a UNIDO training seminar held in Jeddah, Saudi Arabia, from 20 February to 3 March 1999, 18 staff members of the Islamic Development Bank, as well as four representatives of institutions in the region, upgraded their skills in the identification, preparation and appraisal of industrial investment projects. Topics included project development cycle, marketing, technical analysis and financial appraisal. Based on the seminar's success, the Bank has requested UNIDO to develop a three-year training programme on project development cycle.

III. ASSISTANCE TO THE PALESTINIAN PEOPLE

8. UNIDO has prepared a comprehensive draft support programme to Palestinian industry for the years 1999 to 2001. The programme is based on a detailed analysis of the current structure and features of the industrial sector in the West Bank and Gaza Strip, the industry sector's primary needs, and the policies and priorities for industrial development as presented by the Palestinian Authority in, *inter alia*, the National Development Plan for 1999-2003 prepared by the Palestinian Ministry of Planning and International Cooperation.

9. The draft support programme contains two components with 12 project concepts, of which five have already been integrated in the National Development Plan for 1999-2003:

Component

1 Capacity-building for the Ministry of Industry
2 Private sector development

10. The draft support programme is now being finalized in the light of the conclusions from discussions with the Palestinian authorities. A funds mobilization initiative will then be launched with potential multilateral and bilateral donors having already expressed interest in supporting Palestinian industry.

IV. ACTION REQUIRED OF THE BOARD

11. The Board may wish to take note of the information provided in the present document.

Distr.
GENERAL

GC.8/8
IDB.21/21
6 May 1999

United Nations Industrial Development Organization

ORIGINAL : ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November - 3 December 1999

Industrial Development Board

Twenty-first session
Vienna, 23-25 June 1999
Item 5 of the provisional agenda

IMPLEMENTATION OF THE BUSINESS PLAN IN LATIN AMERICA AND THE CARIBBEAN

Report by the Director-General

Reports on the implementation of resolution GC.7/Res.9 as well as on the formulation of integrated programmes for Latin America and the Caribbean.

1. In adopting resolution GC.7/Res.9, the General Conference requested the Director-General to take a number of actions in support of Latin America and the Caribbean within the context of the Business Plan. Documentation issued to the Industrial Development Board in the intervening period covered extensive information on the transformation of UNIDO arising from the adoption of the Business Plan, including development of the service modules and the integrated programmes. The present text refers to specific points contained in resolution GC.7/Res.9 and focuses on the development of integrated programmes for countries in the region.

I. REGIONAL FORUM ON INDUSTRIAL POLICY

2. In developing the new UNIDO service modules for application in all regions, full account was taken of relevant preliminary guidelines for a work programme for 1998 and 1999 for Latin America and the Caribbean, as defined in the report of the 1997 Regional Forum on Industrial Policy. Service modules addressing the concerns reflected in the guidelines include industrial policy formulation and implementation, investment and technology promotion, statistics and information networks

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.99-83882 (E)

Distr.: 12 May 1999

and continuous improvement and quality management. UNIDO will continue to support future meetings of the Regional Forum on Industrial Policy.

3. Follow-up to the 1997 Regional Forum is a principal topic of discussion in the continuous contacts of the Secretariat with Permanent Missions in Vienna of countries in the region. To enhance the dialogue with UNIDO stakeholders in the region, negotiations are under way for the organization of a UNIDO-sponsored forum on industrial development in Latin America and the Caribbean to be convened in the second half of 1999.

II. COUNTRIES AFFECTED BY ECONOMIC CRISIS

4. Paragraph 1 (b) of resolution GC.7/Res.9 requested the Director-General to devote particular attention to those countries in the region most seriously affected by economic crisis. UNIDO efforts in this regard have focused on programmes to strengthen local capacities for industrial promotion. During 1998, UNIDO activities in Latin America and the Caribbean included 40 newly-approved projects in 15 countries, of which 22 are related to environment and energy. Thirteen projects are in the areas of enhancing industrial competitiveness through quality improvement, industrial promotion and technology, and industrial policy design, while five are aimed at support to employment-generation, particularly in depressed Central American economies.

5. An integrated human resource development programme in Guatemala, Honduras and Nicaragua targets women entrepreneurs in the food-processing industry, for which some 200 women in each country are being trained as trainers. To ensure sustainability, local coordinating staff are being trained and given the tools to provide leadership after the operational completion of the UNIDO project.

6. The establishment of National Cleaner Production Centres in Costa Rica, El Salvador, and Nicaragua has shown that adoption by industry of cleaner production can result in economic benefits as well as environmental benefits. A centre is also being established in Guatemala.

7. A networking programme has been proposed for Central America to meet the information and value added needs of the business community in the targeted countries. The programme would also provide a window for the international business community on available business opportunities in the subregion, including investment technology transfer, export and import, and trade.

III. INTEGRATED PROGRAMMES

8. As an initial step in the application of the new UNIDO service modules in Latin America and the Caribbean, integrated programmes are at various stages of development for four selected countries: Bolivia, Colombia, Cuba and Guatemala. These will be followed by programmes for a second group including Ecuador, Haiti, Honduras, Nicaragua and Paraguay.

9. **Bolivia**: In coordination with the Vice-Ministry for Industry and Internal Trade a UNIDO technical mission visited Bolivia in early May 1999. A programme proposal aiming at assisting the Government in enhancing employment, with special emphasis on the agro-industrial sector and in selected regions, is under discussion. Actions were elaborated to target, *inter alia*, strengthening coordination between national and local support strategies and institutions; strengthening institutional capacities for supporting small and medium enterprises in key agro-industrial subsectors; and improving national capacities in the sustainable management of natural resources, with emphasis on the conservation of biodiversity and exploitation of its business opportunities.

10. **Cuba**: In consultation with the Ministry of Cooperation and Investment, a first outline of an integrated programme was formulated to assist the Government's action for employment enhancement in the manufacturing sector. Using the new UNIDO methodology, a preliminary integrated approach was developed which will address three main priorities: (a) contributing to an efficient, stable energy supply by improving the output of existing mini-hydro power plants and exploring alternative energy sources; (b) providing general management training in basic industries and upgrading technical skills in priority sectors; and (c) improving the access of the manufacturing sector to market intelligence services. The UNIDO programme is mainly oriented to upgrading the national expertise and capabilities of Cuban industrial actors. Five service modules are covered: investment and technology promotion; energy efficiency; rural energy; entrepreneurship development; upgrading agro-industries and related technical skills. A technical mission was fielded in early May 1999.

11. **Colombia**: In consultation with the Vice-Minister of Industry, the following priorities of the Colombian Government have been identified: (a) investment promotion; (b) subcontracting; (c) cleaner production; (d) articulation of promotion instruments and structures; (e) promotion of small and medium enterprises. Congress has approved the following actions within the framework of the new development plan: (a) formulation of a state

policy for industrial development; (b) increased exports; (c) strengthening of competitiveness; (d) focusing industrial policy action in small- and medium-scale enterprises and regional development promotion; (e) promotion of foreign investment and strategic alliances. Based on consultations with a delegation visiting UNIDO Headquarters in late April 1999, a technical mission will be fielded.

12. **Guatemala**: In cooperation with the Vice-Minister of Economy, preparations have been initiated for an integrated programme to increase industrial competitiveness and productivity while emphasizing sustainable development. The UNIDO support programme will address the following government priorities: (a) strengthened capacities at the institutional level--both public and private—to support industrial growth and competitiveness; (b) enhanced competitiveness of private sector enterprises in selected industrial sectors; and (c) strengthened links and networks between private sector enterprises and institutions and the public sector. The UNIDO integrated programme is concentrating on improving the system of standards and accreditation; implementing an industrial information system; creating an enabling environment for the development of small and medium enterprises; and environmentally sustainable considerations in selected agro-industries.

IV. ACTION REQUIRED OF THE BOARD

13. The Board may wish to take note of the information contained in the present document.

Distr.
GENERAL

GC.8/8/Add.1
22 September 1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November-3 December 1999
Item 17 (d) of the provisional agenda

IMPLEMENTATION OF THE BUSINESS PLAN IN LATIN AMERICA AND THE CARIBBEAN

Report by the Director-General

Addendum

Updates the information provided in document GC.8/8 on measures relating to activities connected with the implementation of the new programmatic approach in Latin America and the Caribbean, in compliance with Board decision IDB.21/Dec.9.

Introduction

1. In its decision IDB.21/Dec.9, the Board drew attention to a number of issues within the framework of UNIDO activities in support of Latin America and the Caribbean. The Board took note of the information contained in document GC.8/8-IDB.21/21 and encouraged the Director-General to present to the General Conference an updated report. The present document therefore provides supplementary information on the integrated programmes for countries in the region, including funds mobilization efforts. It also contains highlights of recent activities that focus on Latin America and the Caribbean within the global forum function of UNIDO, and of field representation in the region.

I. INTEGRATED PROGRAMMES

Bolivia

2. Subsequent to the May 1999 technical mission, an integrated programme document was prepared to assist Bolivia in the implementation of the National Plan for Industrial Competitiveness. UNIDO will support the Plan through strengthening of institutional capacities in the central Government as well as at the departmental and municipal levels. The priority areas of intervention through the programme are: (a) assistance to the development of micro-, small- and medium-scale enterprises within four clusters of agro-based industries; (b) traditional textiles in North Potosi; and (c) industrial utilization of satureja boliviana (Khoa). UNIDO's assistance will focus on policy implementation and entrepreneurship, with special training for women entrepreneurs. Initial activities are under preparation from UNIDO seed money, in the areas of decentralization policy; information management; fostering rural agro-based industries to promote alternatives crops; and in the reinforcement of standardization, metrology and accreditation. One selected donor country has been approached to finance further initial activities. In the field of metrology, activities have been closely coordinated with the Corporacion Andina de Fomento (CAF), also with a view to possible financing.

Colombia

3. As a follow-up to the visit of the Colombian delegation to UNIDO Headquarters in late April 1999, a programming mission was fielded in June in close

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V.99-88107 (E)

Distr.: 5 October 1999

cooperation with the Ministry of Economic Development. The mission concentrated on data collection and an intensive exchange of views in three priority areas, each of which will duly consider ecologically sustainable development aspects: (a) strengthening government and private sector capabilities in continued improvement and quality management; (b) development of methodologies and strategies for improved competitiveness of selected clusters of small- and medium-scale enterprises, particularly in conflict areas; and (c) establishment of regional investment, information and technology promotion centres in selected areas. Based on government recognition of a previous UNIDO project for Colombia, priority is focused on the regional dissemination of the experience gained from that project to establish the structure of regional centres for investment, information and technology (CRIIT). The intention is to build up a network, thereby enabling the authorities to enhance investment strategies.

Cuba

4. Against the background of the technical mission fielded in May 1999, an integrated programme document was prepared to support the National Strategy on Industrial Competitiveness in Cuba. The focus is on: (a) assistance in implementing an industrial policy; (b) more rational use of energy in industry; (c) upgrading agro-based industrial technologies; and (d) environmental protection through the introduction of cleaner production technologies. UNIDO's seed money contribution to the programme will cover energy, information management and technological upgrading of key agro-based sectors. Using UNIDO seed money, the groundwork will be laid for the establishment of a national information management system with the Ministries of Science and Technology, Steel and Metallurgy, and Cooperation and Investment. Key programmes with the Ministries of Food, Sugar Production and Basic Industry have also been initiated. In close cooperation with the Ministry of Science and Technology, negotiations were started with the Global Environment Facility to secure financing for activities in energy and environment. Contacts have also been established with a traditional special-purpose donor for a contribution to the Industrial Development Fund.

Guatemala

5. The integrated programme to support the productive sector in Guatemala was officially signed by the Government and the Director-General in Guatemala City on 16 July. Thereafter, a technical mission was fielded to discuss with national counterpart agencies and UNDP procedures to begin implementation. An executive unit is to be established in the relevant government office to monitor programme activities. While UNIDO seed money has been approved to initiate implementation with the wood and textile component, negotiations are under way with the Government regarding the provision of a significant financial contribution for start-up. Potential also exists for financing the industrial competitiveness component by the Inter-American Development Bank. With this objective, UNIDO participated in the Bank's Consultative Group meeting at Stockholm, Sweden (May 1999) for the reconstruction and transformation of Central America after hurricane Mitch.

Honduras

6. Disruptive effects of the hurricane Mitch disaster have compounded the problems of poverty and unemployment. To support rapid economic recovery and reconstruction in Honduras, UNIDO has prepared an integrated package of services in capacity-building and entrepreneurship development as well as technical upgrading. The programme foresees three areas of assistance: (a) enhancing the effectiveness of competitiveness policies and strategies; (b) entrepreneurship development in micro, small- and medium-scale enterprises, with emphasis on agro-industry and international partnership promotion; and (c) ecologically sustainable environmental management, including cleaner production and municipal waste management. The programme has also been conceived with a view to enhancing the ability of Honduras to mobilize substantial resources pledged by donors at various international forums. UNIDO seed money has been approved to start up all three programme components. Several initiatives to identify financial resources are under way, including negotiations with one selected donor country to sponsor a National Cleaner Production Centre.

Nicaragua

7. A programming mission with the objective of designing and formulating an integrated programme for Nicaragua is under preparation. The programme will complement ongoing efforts of the Government and the international community to mitigate the damage caused by hurricane Mitch. Initially, the plan is to build on earlier UNIDO assistance aimed at poverty alleviation through productive employment creation programmes. The earlier work used UNIDO's small and medium enterprise cluster approach to analyse the economic potential of the dairy, wood, leather, metal-finishing and fruit and vegetable sectors. The strategy now under consideration aims at putting into practice the findings of the cluster analysis and would also focus on the least developed regions of the country.

II. GLOBAL FORUM FUNCTION

8. Within the context of the global forum function and policy advice, UNIDO has undertaken a number of activities in and for Latin America and the Caribbean. In the context of institutional capacity-building at the country level, a subregional workshop on increasing the participation of women in the manufacturing sector was held in close cooperation with the Mercosur countries at Buenos Aires in October 1998. The workshop aimed at formulating a subregional strategy for the promotion and improvement of women's participation in the manufacturing sector. Other activities included a workshop on manufacturing, investment and employment in Trinidad and Tobago (April 1998, with an update workshop in November 1998). An expert group meeting on international quality and environmental standards: non-tariff barriers to trade, was held at Sao Paolo, Brazil (October 1998). Some 25 national experts from the National Cleaner Production Centres of Central America participated in a UNIDO-organized regional cleaner production training workshop conducted by Austrian and Swiss experts at San José, Costa Rica (February 1999). Jointly with the International Centre for High Technology in Trieste, Italy, UNIDO will convene a workshop in November 1999 in the field of technology forecasting and foresight activities, with a focus on Latin America.

9. Issues of particular relevance to Latin America and the Caribbean were frequently the focus in a series of Headquarters in-depth programmatic discussions on the orientation and substantive content of UNIDO services and programmes. Mr. José Botafogo Gonçalves, Brazilian Minister of Industry, Trade and Tourism, highlighted the challenges of global industrialization for Brazil and the impact of Mercosur, as well as the role of multilateral organizations in industrial development, in a presentation in July 1998. The Vice-President of Guatemala, Mr. Luis Flores Asturias, gave a presentation on prospects for international cooperation with Guatemala in the framework of the peace agreement (Vienna, November 1998). In January 1999, Mr. Enrique Iglesias, President of the Inter-American Development Bank, offered a historical overview of the development process in Latin America, its current achievements, shortcomings and future plans. A special forum entitled "What's ahead for post-reform Latin America: Detour and Dangers or Drive and Determination" featured keynote speakers from BBV Securities, The Newmarket Company and the Argentine Ambassador to UNESCO (September 1999).

III. FIELD REPRESENTATION

10. UNIDO field representation in Latin America and the Caribbean has been covered in several documents issued to the policy-making organs subsequent to the seventh session of the General Conference, the most recent of which was to the twenty-first session of the Board. Since that time, the UNIDO office in Montevideo was inaugurated in July 1999 to cover the Mercosur countries. For that office, substantive discussions with the Government of Uruguay and the UNDP office have determined the modalities for operations and administrative cost-sharing.

IV. ACTION REQUIRED OF THE CONFERENCE

11. The Conference may wish to take note of the information provided in the present document.

Distr.
GENERAL

GC.8/9
IDB.21/23
7 May 1999

United Nations Industrial Development Organization

ORIGINAL : ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November - 3 December 1999

Industrial Development Board

Twenty-first session
Vienna, 23-25 June 1999
Item 5 of the provisional agenda

DEVELOPMENT OF HUMAN RESOURCES FOR INDUSTRY

Report by the Director-General

Reports on the implementation of General Conference resolution GC.7/Res.3

1. In resolution GC.7/Res.3, the General Conference emphasized the importance of the human dimension in development, in particular in industrial development projects, and noted the increasing demand from developing countries for capacity-building in human resources development. The resolution highlighted aspects of industrial human resources development (IHRD) related to: (a) a clearer definition of the IHRD concept of UNIDO within the context of the Business Plan; (b) integration of the services of industrial training institutions into UNIDO activities; and (c) programmes of South-South cooperation in human resources development.

2. UNIDO defines industrial human resource development as a dynamic process providing sustainable opportunities for men and women in accordance with their aspirations and talents to acquire knowledge, skills, attitudes and know-how which can be applied in favourable and equitable conditions of employment or self-employment to accelerate industrialization for their economic and social benefit and that of their community.

3. All UNIDO service modules address capacity-building and effectively incorporate elements of IHRD. This mainstreaming approach allows IHRD, wherever relevant, to become an integral part of all UNIDO's industrial support service activities. The full response and impact of the holistic definition and approach provided above will be realized during the implementation of the recently-developed UNIDO integrated programmes of assistance. The explicit incorporation of gender-specific issues and elements into each of the service modules is planned.

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V.99-83920 (E) (a:\1999\pmo.1)

Distr.: 13 May 1999

4. Among the integrated programmes developed to date are examples of the integration of services of industrial training institutions, particularly in Africa. UNIDO will support an existing training centre for leather products development in Uganda. A project recently approved by the Executive Board will provide support to upgrade equipment and training services for the Theka Centre, which serves the whole of East Africa. In the United Republic of Tanzania, a technology diffusion centre will function as a demonstration centre for food processing and for providing advisory services to small- and medium-scale entrepreneurs, with a strong emphasis on promotion of female entrepreneurship.

5. Elements of South-South cooperation within the framework of IHRD are also featured in UNIDO activities. A project recently developed for an Asia-Africa Investment Promotion Centre to promote cooperation between the two regions would include seminars and workshops among its activities. Training by Indian specialists is foreseen as part of a project now being formulated on technology transfer to Africa, to be partly financed by India.

6. In response to the mandates of the Business Plan calling for the focusing and integration of UNIDO services while at the same time reducing the dispersion of UNIDO activities, stand-alone training—with its limited impact and low cost-effectiveness—continues to be de-emphasized and the staff formerly responsible for those activities have been assigned to other technical units to facilitate an Organization-wide response to the requirements of IHRD.

7. Currently, UNIDO programmes address the following aspects of IHRD: industrial employment and related manpower development, with particular emphasis on the demand side of industry (as interpreted by UNIDO-assisted industrial support institutions), and technology development and its integration in industrial organizations and management. Programmes that directly address the social dimensions of IHRD in terms of health, welfare and living/working conditions are addressed by the International Labour Organization, the regional economic commissions (in particular the Economic and Social Commission for Asia and the Pacific) and the World Health Organization.

8. The Secretariat is of the view that IHRD is a subject worthy of systematic analysis and study in its own right and that a high-level research capacity needs to be established at UNIDO to specifically address policy-level IHRD issues. This is important for three reasons. When social agenda issues are discussed in international forums, UNIDO needs to be in a position to demonstrate how the industrial dimension of HRD contributes to poverty reduction and social integration, and to disseminate lessons learned in that connection. The results of IHRD research are also required to update the IHRD policy and strategy advice given by the Organization to its Member States. Finally, research findings will need to be continuously introduced into the service modules to improve the Organization's IHRD performance when implementing integrated programmes. This would, *inter alia*, require the continuous analysis of UNIDO's integrated programmes and related IHRD interventions to increase the capacities of government, institutions, associations and enterprises.

9. The Secretariat can only establish this critically important research function if additional resources are made available.

ACTION REQUIRED OF THE BOARD

10. The Board may wish to take note of the information contained in the present document.

Distr.
GENERAL

GC.8/10
IDB.21/26
12 May 1999

United Nations Industrial Development Organization

ORIGINAL : ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November - 3 December 1999

Industrial Development Board

Twenty-first session
Vienna, 23-25 June 1999
Item 5 of the provisional agenda

PROGRESS IN THE TRANSFORMATION OF UNIDO

Report by the Director-General

Provides information on the implementation of General Conference resolution GC.7/Res.1, as well as on cooperation within the United Nations Development Assistance Framework (UNDAF) and United Nations houses in the field.

Abbreviations

CCA	common country assessment	UNCTAD	United Nations Conference on Trade and Development
FAO	Food and Agricultural Organization of the United Nations	UNDAF	United Nations Development Assistance Framework
GEF	Global Environment Facility	UNDCP	United Nations International Drug Control Programme
ILO	International Labour Organization	UNDP	United Nations Development Programme
ITC	International Trade Centre	UNESCO	United Nations Educational, Scientific and Cultural Organization
LAC	Latin America and the Caribbean	UNFCCC	United Nations Framework Convention on Climate Change
LDC	least developed country	UNFIP	United Nations Fund for International Partnerships
SID	sustainable industrial development	UNSIA	United Nations Special Initiative for Africa
SHD	sustainable human development	WHO	World Health Organization
SME	small and medium enterprise	WIPO	World Intellectual Property Organization
SPPD	support services for policy and programme development		

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V.99-84046 (E)
Distr.: 17 May 1999

Introduction

1. Resolution GC.7/Res.1 adopted by the General Conference at its seventh session endorsed the Business Plan and requested the Director-General to take action concerning improvements in the functioning of UNIDO, and keeping Member States informed about the implementation of the Business Plan, *inter alia*, through a range of performance indicators. The present document updates and supplements extensive documentation issued to the policy-making organs on action taken to implement the Business Plan, the most important of which are listed in the annex. In particular, part one of the *1998 Annual Report* (IDB.21/10) provides comprehensive information on the measures undertaken to transform the Organization in line with Business Plan requirements. Building on this, the present document addresses cooperation within the United Nations system and takes into particular account the interest of Member States concerning UNIDO cooperation within UNDAF and United Nations houses in the field.

2. Parts of the *Annual Report*, issued in March 1999, detailed the financial, administrative, organizational and programmatic measures that UNIDO has undertaken to implement the Business Plan. The medium-term programme framework, issued in April 1999, presented recent programmatic developments in terms of UNIDO's new integrated programmes and the future schedule for these programmes. These two documents cover fully the major financial, administrative and programmatic measures that have been taken or are planned to be taken in implementation of the Business Plan.

3. The only major developments since the fifteenth session of the Programme and Budget Committee relate to:

- New staff career development programme (covered in document IDB.21/16)
- Development of integrated programmes (covered in documents IDB.21/15, 18, 20 and 21)
- United Nation system-wide cooperation.

The present note updates information on system-wide cooperation given in the *Annual Report* in terms of:

- Inter-agency agreements
- United Nations Development Assistance Framework
- United Nations houses in the field

I. INTER-AGENCY AGREEMENTS

UNCTAD

4. Within the framework of the memorandum of understanding signed with UNCTAD on 26 March 1998, cooperation is taking place in a wide range of areas, as reflected in box 1.

Box 1. Cooperation with UNCTAD

- Brazil, Central America—quality management in food processing (UNCTAD Empretec programme)
- Burkina Faso—Joint regional seminar on women's entrepreneurship development
- Ecuador investment policy review
- Gambia Economic Development Zone and investment policy advice
- Sudan—Multi-agency formulation mission for investment and trade component of integrated country programme
- Uganda—Review of sector profiles for UNCTAD investment and technology programme
- UNIDO seminar on investment opportunities in small and medium-sized infrastructure projects in developing countries)
- UNIDO methodology presented to UNCTAD expert group meeting on clustering and networking for SME development (Geneva, September 1998)
- Regional Europe—Study on regulations of micro finance institutions and credit unions for development of private sector micro and small industries
- UNIDO workshops on quality principles in food processing sector in seven sub-Saharan countries (Harare, September 1998; Addis Ababa, November 1998)
- Joint international working group on clean development mechanisms
- UNIDO Forum on Industrial Development (Vienna, May 1998)
- UNCTAD Conference on Partners in Development (Lyon, France, November 1998)

5. A number of constraints have been encountered in realizing the full potential of cooperation between the two organizations, owing in particular to the far-reaching agenda implied by the agreement. It has been difficult in some cases to give precision to this agenda, despite the supportive spirit that prevails on both sides. Another difficulty has been due in part to insufficiency of financial resources.

UNDP

6. Collaboration between UNDP and UNIDO has been within the framework of the joint letter dated 31 October 1998. In a transformed UNIDO, the focus on sustainable industrial development (SID) is a perfect complement to sustainable human development (SHD), and joint programming is already feasible on the basis of that complementarity. This will facilitate coherence at policy and operational levels and support the related mobilization of resources for joint activities. This collaboration can be seen as a major contribution to the Secretary-General's initiatives for reform.

7. UNDP is analysing UNIDO integrated programmes for seven African countries. Analysis will be in the context of the current cycle for programming arrangements and in the next ones starting in 2000. UNIDO inputs to the United Nations joint programming exercises at the country level have stimulated other specialized agencies to promote the same type of partnership. Currently, UNIDO is working along these lines with four other agencies (UNESCO, WHO, ILO, FAO) in a partnership with UNDP based on its capacity as funder and manager of the United Nations Resident Coordinator system. Other areas of cooperation with UNDP are indicated in box 2.

8. The key to the implementation of this agreement is closely related to the country-level capacity of UNIDO to participate in United Nations joint programming exercises and to the speed and modalities of its decentralization process. Once all related measures are implemented, it will be possible to demonstrate in full the feasibility of the basic principles and objectives identified in the joint letter.

Box 2. Cooperation with UNDP

- Complementarity between sustainable human development strategy and sustainable industrial development concept
- Joint programming at country level
- Strengthening role of UNDP as funder and manager of United Nations Resident Coordinator system
- UNIDO technical capacity for supporting activities, using national execution modality, under consideration
- Support to decentralization process of UNIDO offices at country level
- UNDP studying UNIDO cleaner technologies capacities for incorporation into country programmes on case-by-case basis
- Support to the Alliance for Africa's Industrialization
- Cooperation modalities established for strengthening technical cooperation among developing countries
- Industrial energy efficiency—UNIDO is one of five partners on Task Force on Climate Change, under UNDP leadership and in cooperation with UNFCC
- GEF—Potential pipeline for concrete projects developed and collaboration on existing projects improved
- Security and emergency arrangements (country-level criteria established under leadership of Resident Coordinator/Resident Representative)
- Joint programming as basis for joint training activities at United Nations Staff College

9. As a result of the transformation, the acceleration of the decentralization process in UNIDO and all related modalities are now becoming a reality. Emphasis will therefore be placed on the operational policies of the Organization in order to make them compatible with the programming arrangements of UNDP starting in 2000.

ITC

10. Indications have been received from ITC that 10 of UNIDO's service modules offer good cooperation potential, along with several areas that cut across all 16 service modules. Work is now being undertaken to build on the identified potential as the basis for drafting a memorandum of understanding.

UNDCP

11. UNIDO will take part in a UNDCP programme formulation mission to Albania focusing on employment and income-generating activities in selected regions. Discussions are now taking place to update existing cooperation agreements between the two organizations into a new memorandum of understanding.

II. UNITED NATIONS DEVELOPMENT ASSISTANCE FRAMEWORK

12. UNIDO has been actively involved in the UNDAF process. UNIDO Representatives at the country level serve as focal points for the UNDAF exercise and as members of United Nations country teams. They also participate fully in United Nations country-level meetings and retreats in the development of various system-wide approaches and play a critical role in the preparation of common country assessments (CCAs). During the process of development of its integrated programmes, UNIDO will continue to maintain its coherence and integration with UNDAF and United Nations Special Initiative for Africa (UNSIA) exercises. UNIDO was also engaged in the UNDAF process at the country level where no integrated programmes have yet been developed or are at the planning stage. Table 1 provides information on UNIDO involvement within the UNDAF process at the country level.

Table 1. UNIDO involvement within UNDAF

Africa	Asia	Europe	Latin America & Caribbean
Ethiopia	China	Romania	Colombia
Malawi	India	Turkey	Guatemala
Mali	Pakistan		Honduras
Senegal	Philippines		
United Republic of Tanzania	Viet Nam		
Zimbabwe			

13. It should also be mentioned that, as part of its close cooperation with the UNDAF exercise, UNIDO has provided substantial inputs into the finalization of the draft CCAs and the UNDAF guidelines.

III. UNITED NATIONS HOUSES IN THE FIELD

14. A key feature of the Secretary-General's reform programme to enhance coherence and coordination within the system is the establishment of common premises, or United Nations houses. United Nations houses ultimately aim to house all programmes, funds, offices of specialized agencies and information centres. These houses enable wider sharing of support services among United Nations entities to yield increased efficiencies and the reduction of administrative costs. UNIDO is fully committed to integration into the growing network of United Nations houses.

15. According to the United Nations Development Group, so far United Nations houses have been officially designated in Lebanon, Lesotho, Malaysia and South Africa. UNIDO's Representative in Lebanon is based in the United Nations house. Table 2 shows the countries in which UNIDO Representatives share premises with UNDP or with the United Nations.

16. With respect to premises shared with UNDP, as per the UNIDO/UNDP cooperation agreement signed last year, UNIDO shares office equipment and physical infrastructure with UNDP for efficient delivery of services and reduction of costs. UNDP also provides support to UNIDO's programme development activities, as well as administrative and logistical support. For this support, UNIDO is charged on the basis of common United Nations system rules and procedures established for this purpose by UNDP.

IV. ACTION REQUIRED OF THE BOARD

17. The Board may wish to take note of the information provided in the present document.

Table 2. Premises shared with UNDP or United Nations

Africa	Arab	Asia & Pacific	Europe	Latin America & Caribbean
Cameroon	Egypt	China	Turkey	Argentina**
Côte d'Ivoire	Lebanon	India		Bolivia
Ethiopia	Sudan	Indonesia		Colombia**
Ghana		Islamic Republic of Iran**		Honduras
Guinea**		Pakistan		Jamaica
Kenya		Viet Nam		Mexico
Nigeria*				
Senegal				
United Republic of Tanzania				
Zambia				

*Planned to be moved to United Nations common premises in Abuja.

**Premises provided by the Government.

Annex

FOLLOW-UP TO RESOLUTION GC.7/RES.1—DOCUMENTS ISSUED TO POLICY-MAKING ORGANS

Transformation of UNIDO

IDB.21/10	*Annual Report 1998*, part one
IDB.21/7	Proposed programme and budgets, 2000-2001
IDB.21/13	Medium-term programme framework, 2000-2003
IDB.21/16, chap. IV	Staff career development system

Field representation

IDB.19/11	IDB.21/10, chap. I
IDB.19/CRP.8	IDB.20/CRP.4
IDB.20/16	IDB.21/19

Performance indicators

IDB.19/CRP.2	IDB.21/10, chap. VI
IDB.20/17	IDB.21/24
IDB.20/CRP.5	

Integrated programmes

IDB.21/10, chap. III	
IDB.21/20	Arab countries programme, including technical assistance to the Palestinian people
IDB.21/18	Implementation of the Business Plan in Africa
IDB.21/21	Implementation of the Business Plan in Latin America and the Caribbean

Least developed countries

IDB.19/8	IDB.21/15
IDB.21/10, chap. III.C	

Distr.
GENERAL

GC.8/10/Corr.1
IDB.21/26/Corr.1
2 June 1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November-3 December 1999

Industrial Development Board

Twenty-first session
Vienna, 23-25 June 1999
Item 5 of the provisional agenda

PROGRESS IN THE TRANSFORMATION OF UNIDO

Report by the Director-General

Corrigendum

Page 4

Replace table 2 by the table appearing below

Table 2. Premises shared with UNDP or United Nations

Africa	Arab	Asia & Pacific	Europe	Latin America & Caribbean
Cameroon*	Algeria	China	Turkey	Argentina**
Côte d'Ivoire*	Egypt*	India		Bolivia
Ethiopia	Lebanon	Indonesia		Colombia**
Ghana	Sudan	Islamic Republic of Iran*		Honduras
Guinea*		Pakistan		Jamaica
Kenya		Viet Nam		Mexico
Nigeria				
Senegal				
United Republic of Tanzania				
Zambia				

*Premises provided by the Government.

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V.99-84580 (E) (a:1999/gmo.1)

Distr.: 3 June 1999

Distr.
GENERAL

GC.8/10/Corr.2
IDB.21/26/Corr.2
3 November 1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November-3 December 1999
Item 10 of the provisional agenda

Industrial Development Board

Twenty-first session
Vienna, 23-25 June 1999
Item 5 of the provisional agenda

PROGRESS IN THE TRANSFORMATION OF UNIDO

Report by the Director-General

Corrigendum

Page 4

Replace table 2 by the table appearing below.

Table 2. Premises shared with UNDP or United Nations

Africa	Arab	Asia & Pacific	Europe	Latin America & Caribbean
Cameroon*	Algeria	China	Turkey	Argentina**
Côte d'Ivoire*	Egypt*	India		Bolivia
Ethiopia	Lebanon	Indonesia		Colombia**
Ghana	Sudan	Islamic Republic of Iran*		Honduras
Guinea*		Pakistan		Jamaica
Kenya		Viet Nam		Mexico
Nigeria*				
Senegal				
United Republic of Tanzania				
Zambia				

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V.99-89393 (E) (a:1999/pmo.1)

Distr.: 5 November 1999

Distr.
GENERAL

GC.8/11
1 September 1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November - 3 December 1999

LISTS OF STATES INCLUDED IN ANNEX I TO THE CONSTITUTION OF UNIDO

Note by the Secretariat

1. Reference is made to the Lists of States included by the Depositary in Annex I to the Constitution of UNIDO, contained in document UNIDO/GC.1/3. According to Annex I to the Constitution, the Lists of States to be included by the Depositary (Secretary-General of the United Nations) in that Annex are the lists determined by the General Assembly of the United Nations for the purpose of section II, paragraph 4, of General Assembly resolution 2152 (XXI), as in effect on the date the Constitution entered into force, namely on 21 June 1985.

2. As of 1 September 1999, 168 States were Members of UNIDO. Of these, 164 are shown in the Lists of States to be included by the Depositary in Annex I to the Constitution (see overleaf). The following 4 States have become Members of UNIDO but are not yet included in any of those lists:

State	Date of accession
Tajikistan	9 June 1993
Uzbekistan	26 April 1994
Turkmenistan	16 February 1995
Kazakhstan	3 June 1997

Pursuant to paragraph 1 of Annex I to the Constitution, if a State not listed in any of those lists becomes a Member of UNIDO, the General Conference shall decide, after appropriate consultations, in which of those lists it is to be included. The matter will be brought to the attention of the Conference at its eighth session for consideration.

3. The present note supersedes document IDB.19/2.

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V.99-87615 (E)

Distr.: 8 September 1999

A. States from List A of document UNIDO/GC.1/3

Afghanistan
Algeria
Angola
Bahrain
Bangladesh
Benin
Bhutan
Botswana
Burkina Faso
Burundi
Cambodia
Cameroon
Cape Verde
Central African Republic
Chad
China
Comoros
Congo
Côte d'Ivoire
Democratic People's Republic of Korea
Democratic Republic of the Congo
Djibouti
Egypt
Equatorial Guinea
Eritrea
Ethiopia
Fiji
Gabon
Gambia
Ghana
Guinea
Guinea-Bissau
India
Indonesia
Iran (Islamic Republic of)
Iraq
Israel
Jordan
Kenya
Kuwait
Kyrgyzstan
Lao People's Democratic Republic
Lebanon
Lesotho
Liberia
Libyan Arab Jamahiriya
Madagascar
Malawi
Malaysia
Maldives
Mali
Mauritania
Mauritius
Mongolia
Morocco
Mozambique
Myanmar
Namibia
Nepal
Niger
Nigeria
Oman
Pakistan
Papua New Guinea
Philippines
Qatar
Republic of Korea
Rwanda
Sao Tome and Principe
Saudi Arabia
Senegal
Seychelles
Sierra Leone
Somalia
Sri Lanka
Sudan
Swaziland
Syrian Arab Republic
Thailand
Togo
Tonga
Tunisia
Uganda
United Arab Emirates
United Republic of Tanzania
Vanuatu
Viet Nam
Yemen
Yugoslavia[a]
Zambia
Zimbabwe

B. States from List B of document UNIDO/GC.1/3

Austria
Belgium
Cyprus
Denmark
Finland
France
Germany
Greece
Ireland
Italy
Japan
Luxembourg
Malta
Netherlands
New Zealand
Norway
Portugal
Spain
Sweden
Switzerland
Turkey
United Kingdom of Great Britain and Northern Ireland

C. States from List C of document UNIDO/GC.1/3

Argentina
Bahamas
Barbados
Belize
Bolivia
Brazil
Chile
Colombia
Costa Rica
Cuba
Dominica
Dominican Republic
Ecuador
El Salvador
Grenada
Guatemala
Guyana
Haiti
Honduras
Jamaica
Mexico
Nicaragua
Panama
Paraguay
Peru
Saint Kitts and Nevis
Saint Lucia
Saint Vincent and the Grenadines
Suriname
Trinidad and Tobago
Uruguay
Venezuela

D. States from List D of document UNIDO/GC.1/3

Albania
Armenia
Azerbaijan
Belarus
Bosnia and Herzegovina
Bulgaria
Croatia
Czech Republic
Georgia
Hungary
Lithuania
Poland
Republic of Moldova
Romania
Russian Federation
Slovakia
Slovenia
The former Yugoslav Republic of Macedonia
Ukraine

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[a]Concerning Yugoslavia, see resolution GC/S.1/Res.1 adopted by the General Conference at its first special session.

Distr.
GENERAL

GC.8/11/Rev.1
1 December1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November - 3 December 1999

LISTS OF STATES INCLUDED IN ANNEX I TO THE CONSTITUTION OF UNIDO

Note by the Secretariat

1. Reference is made to the Lists of States included by the Depositary in Annex I to the Constitution of UNIDO, contained in document UNIDO/GC.1/3. According to Annex I to the Constitution, the Lists of States to be included by the Depositary (Secretary-General of the United Nations) in that Annex are the lists determined by the General Assembly of the United Nations for the purpose of section II, paragraph 4, of General Assembly resolution 2152 (XXI), as in effect on the date the Constitution entered into force, namely on 21 June 1985.

2. As of 1 December 1999, 168 States were Members of UNIDO. Of these, 165 are shown in the Lists of States to be included by the Depositary in Annex I to the Constitution (see overleaf). The following 3 States have become Members of UNIDO but are not yet included in any of those lists:

State	Date of accession
Tajikistan	9 June 1993
Turkmenistan	16 February 1995
Kazakhstan	3 June 1997

Pursuant to paragraph 1 of Annex I to the Constitution, if a State not listed in any of those lists becomes a Member of UNIDO, the General Conference shall decide, after appropriate consultations, in which of those lists it is to be included. The matter will be brought to the attention of the Conference at its eighth session for consideration.

3. The present note supersedes document GC.8/11.

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

A. States from List A of document UNIDO/GC.1/3

Afghanistan
Algeria
Angola
Bahrain
Bangladesh
Benin
Bhutan
Botswana
Burkina Faso
Burundi
Cambodia
Cameroon
Cape Verde
Central African Republic
Chad
China
Comoros
Congo
Côte d'Ivoire
Democratic People's Republic of Korea
Democratic Republic of the Congo
Djibouti
Egypt
Equatorial Guinea
Eritrea
Ethiopia
Fiji
Gabon
Gambia
Ghana
Guinea
Guinea-Bissau
India
Indonesia
Iran (Islamic Republic of)
Iraq
Israel
Jordan
Kenya
Kuwait
Kyrgyzstan
Lao People's Democratic Republic
Lebanon
Lesotho
Liberia
Libyan Arab Jamahiriya
Madagascar
Malawi
Malaysia
Maldives
Mali
Mauritania
Mauritius
Mongolia
Morocco
Mozambique
Myanmar
Namibia
Nepal
Niger
Nigeria
Oman
Pakistan
Papua New Guinea
Philippines
Qatar
Republic of Korea
Rwanda
Sao Tome and Principe
Saudi Arabia
Senegal
Seychelles
Sierra Leone
Somalia
Sri Lanka
Sudan
Swaziland
Syrian Arab Republic
Thailand
Togo
Tonga
Tunisia
Uganda
United Arab Emirates
United Republic of Tanzania
Uzbekistan
Vanuatu
Viet Nam
Yemen
Yugoslavia[a]
Zambia
Zimbabwe

B. States from List B of document UNIDO/GC.1/3

Austria
Belgium
Cyprus
Denmark
Finland
France
Germany
Greece
Ireland
Italy
Japan
Luxembourg
Malta
Netherlands
New Zealand
Norway
Portugal
Spain
Sweden
Switzerland
Turkey
United Kingdom of Great Britain and Northern Ireland

C. States from List C of document UNIDO/GC.1/3

Argentina
Bahamas
Barbados
Belize
Bolivia
Brazil
Chile
Colombia
Costa Rica
Cuba
Dominica
Dominican Republic
Ecuador
El Salvador
Grenada
Guatemala
Guyana
Haiti
Honduras
Jamaica
Mexico
Nicaragua
Panama
Paraguay
Peru
Saint Kitts and Nevis
Saint Lucia
Saint Vincent and the Grenadines
Suriname
Trinidad and Tobago
Uruguay
Venezuela

D. States from List D of document UNIDO/GC.1/3

Albania
Armenia
Azerbaijan
Belarus
Bosnia and Herzegovina
Bulgaria
Croatia
Czech Republic
Georgia
Hungary
Lithuania
Poland
Republic of Moldova
Romania
Russian Federation
Slovakia
Slovenia
The former Yugoslav Republic of Macedonia
Ukraine

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[a]Concerning Yugoslavia, see resolution GC/S.1/Res.1 adopted by the General Conference at its first special session.

Distr.
GENERAL

GC.8/11/Rev.2
3 December1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November - 3 December 1999

LISTS OF STATES INCLUDED IN ANNEX I TO THE CONSTITUTION OF UNIDO

Note by the Secretariat

1. Reference is made to the Lists of States included by the Depositary in Annex I to the Constitution of UNIDO, contained in document UNIDO/GC.1/3. According to Annex I to the Constitution, the Lists of States to be included by the Depositary (Secretary-General of the United Nations) in that Annex are the lists determined by the General Assembly of the United Nations for the purpose of section II, paragraph 4, of General Assembly resolution 2152 (XXI), as in effect on the date the Constitution entered into force, namely on 21 June 1985.

2. As of 3 December 1999, 168 States were Members of UNIDO. Of these, 166 are shown in the Lists of States to be included by the Depositary in Annex I to the Constitution (see overleaf). The following 2 States have become Members of UNIDO but are not yet included in any of those lists:

State	Date of accession
Tajikistan	9 June 1993
Turkmenistan	16 February 1995

Pursuant to paragraph 1 of Annex I to the Constitution, if a State not listed in any of those lists becomes a Member of UNIDO, the General Conference shall decide, after appropriate consultations, in which of those lists it is to be included. The matter will be brought to the attention of the Conference at its eighth session for consideration.

3. The present note supersedes document GC.8/11/Rev.1.

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A. States from List A of document UNIDO/GC.1/3

Afghanistan
Algeria
Angola
Bahrain
Bangladesh
Benin
Bhutan
Botswana
Burkina Faso
Burundi
Cambodia
Cameroon
Cape Verde
Central African Republic
Chad
China
Comoros
Congo
Côte d'Ivoire
Democratic People's Republic of Korea
Democratic Republic of the Congo
Djibouti
Egypt
Equatorial Guinea
Eritrea
Ethiopia
Fiji
Gabon
Gambia
Ghana
Guinea
Guinea-Bissau
India
Indonesia
Iran (Islamic Republic of)
Iraq
Israel
Jordan
Kazakhstan
Kenya
Kuwait
Kyrgyzstan
Lao People's Democratic Republic
Lebanon
Lesotho
Liberia
Libyan Arab Jamahiriya
Madagascar
Malawi
Malaysia
Maldives
Mali
Mauritania
Mauritius
Mongolia
Morocco
Mozambique
Myanmar
Namibia
Nepal
Niger
Nigeria
Oman
Pakistan
Papua New Guinea
Philippines
Qatar
Republic of Korea
Rwanda
Sao Tome and Principe
Saudi Arabia
Senegal
Seychelles
Sierra Leone
Somalia
Sri Lanka
Sudan
Swaziland
Syrian Arab Republic
Thailand
Togo
Tonga
Tunisia
Uganda
United Arab Emirates
United Republic of Tanzania
Uzbekistan
Vanuatu
Viet Nam
Yemen
Yugoslavia[a]
Zambia
Zimbabwe

B. States from List B of document UNIDO/GC.1/3

Austria
Belgium
Cyprus
Denmark
Finland
France
Germany
Greece
Ireland
Italy
Japan
Luxembourg
Malta
Netherlands
New Zealand
Norway
Portugal
Spain
Sweden
Switzerland
Turkey
United Kingdom of Great Britain and Northern Ireland

C. States from List C of document UNIDO/GC.1/3

Argentina
Bahamas
Barbados
Belize
Bolivia
Brazil
Chile
Colombia
Costa Rica
Cuba
Dominica
Dominican Republic
Ecuador
El Salvador
Grenada
Guatemala
Guyana
Haiti
Honduras
Jamaica
Mexico
Nicaragua
Panama
Paraguay
Peru
Saint Kitts and Nevis
Saint Lucia
Saint Vincent and the Grenadines
Suriname
Trinidad and Tobago
Uruguay
Venezuela

D. States from List D of document UNIDO/GC.1/3

Albania
Armenia
Azerbaijan
Belarus
Bosnia and Herzegovina
Bulgaria
Croatia
Czech Republic
Georgia
Hungary
Lithuania
Poland
Republic of Moldova
Romania
Russian Federation
Slovakia
Slovenia
The former Yugoslav Republic of Macedonia
Ukraine

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[a]Concerning Yugoslavia, see resolution GC/S.1/Res.1 adopted by the General Conference at its first special session.

Distr.
GENERAL

GC.8/12
9 September 1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November-3 December 1999
Item 11 (c) of the provisional agenda

Adjustments to the programme and budgets for the 1998-1999 biennium

Note by the Secretariat

Provides background information concerning the recommendation of the Board in decision IDB.20/Dec.5, paragraph (d)(i), on supplementary estimates for the measures relating to buildings management and VIC essential requirements.

1. Within the context of General Conference decision GC.7/Dec.16, paragraph (e), proposed adjustments to the approved regular budget estimates for 1998-1999 were submitted to the Industrial Development Board at its twentieth session through the Programme and Budget Committee (IDB.20/7-PBC.14/6). Upon recommendation of the Committee, the Board adopted decision IDB.20/Dec.5, which endorsed the proposed adjustments outlined in paragraphs 13 to 21 of the document. The Board also took note of the information provided in the programme and budget document (GC.7/21), indicating that a reallocation of budgetary resources would be required in the event that UNIDO continued to maintain responsibility for buildings management.

2. In decision IDB.20/Dec.5, the Board requested the Director-General, in accordance with financial regulation 3.9: (a) to submit for approval by the eighth session of the General Conference the necessary supplementary estimates for the current fiscal period for the measures relating to buildings management and the VIC essential requirements programme while being implemented in the 1998-1999 biennium, as referred to in paragraphs 22 to 34 of document IDB.20/7; and (b) to submit those estimates in an amount not to exceed $19.6 million, as presented in table 1 of that document.

3. Subsequently, the Director-General reported in document IDB.21/5 that discussions with other organizations in the Vienna International Centre (VIC), including in the Consultative Committee on Common Services, had not resulted in the transfer of responsibility for buildings management.

4. The annex to the present document shows the adjustments by major programme and major object of expenditure. It also presents the split-currency adjustment formula, reflecting the budget adjustments. Table 2 of the annex reflects adjustments between major objects of expenditure to facilitate a transparent administration of the essential requirements programme, as compared to the corresponding table (2 (b)) in document IDB.20/7.

ACTION REQUIRED OF THE CONFERENCE

5. The Conference may wish to consider adopting the following draft decision:

"*The General Conference*:

"(a) Recalls its decision GC.7/Dec.16 on the programme and budgets, 1998-1999;

"(b) Takes note of Board decision IDB.20/5, which endorsed the adjustments to the programme and budgets for 1998-1999 outlined in paragraphs 13 to 21 of document IDB.20/7 within the context of General Conference decision GC.7/Dec.16, paragraph (e);

"(c) Also takes note of the information provided in document IDB.20/7 and subsequently in documents IDB.20/18, IDB.21/5 and GC.8/12 concerning responsibility for buildings management as well as support to the Vienna Chapter of the Group of 77 and China;

"(d) Approves the supplementary estimates for the fiscal period 1998-1999 outlined in the annex to document GC.8/12."

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V.99-87775 (E)

Distr.: 16 September 1999

Annex

REGULAR BUDGET ADJUSTMENT FOR 1998-1999

Table 1. By major programme
(In thousands of US dollars at US$ 1 = AS 12.90)

	Major programme	Budget 1998-1999 Expenditure	Income	Net	Percentage of net total budget	Budget adjustments Expenditure	Income	Net	Adjusted budget 1998-1999 Expenditure	Income	Net	Percentage of net total budget
A	Policy-making Organs	6,680.0		6,680.0	5.2	(594.4)		(594.4)	6,085.6		6,085.6	4.7
B	General Management	10,474.0		10,474.0	8.1	981.2		981.2	11,455.2		11,455.2	8.8
C	Strengthening of Industrial Capacities	42,017.5		42,017.5	32.4	(1,041.8)		(1,041.8)	40,975.7		40,975.7	31.6
D	Cleaner and Sustainable Industrial Development	14,415.0		14,415.0	11.1	(243.3)		(243.3)	14,171.7		14,171.7	10.9
E	Regional Programme Management	20,343.7	895.5	19,448.2	15.0	(129.0)		(129.0)	20,214.7	895.5	19,319.2	14.9
F	Technical Cooperation Management	7,567.6		7,567.6	5.8	(145.7)		(145.7)	7,421.9		7,421.9	5.7
G	Administration	44,400.8	13,954.1	30,446.7	23.5	20,774.7	19,601.7	1,173.0	65,175.5	33,555.8	31,619.7	24.4
	Miscellaneous income		1,508.3	(1,508.3)	(1.2)					1,508.3	(1,508.3)	(1.2)
		145,898.6	16,357.9	129,540.7		19,601.7	19,601.7	(0.0)	165,500.3	35,959.6	129,540.7	

Table 2. By major object of expenditure
(In thousands of US dollars at US$ 1 = AS 12.90)

	Major object of expenditure	Budget 1998-1999 Expenditure	Income	Net	Percentage of net total budget	Budget adjustments Expenditure	Income	Net	Adjusted budget 1998-1999 Expenditure	Income	Net	Percentage of net total budget
100	Staff costs	86,436.9	4,726.9	81,710.0	63.1	5,875.5	4,634.7	1,240.8	92,312.4	9,361.6	82,950.8	64.0
200	Official travel	2,192.1	3.3	2,188.8	1.7	4.6	3.5	1.1	2,196.7	6.8	2,189.9	1.7
300	Contractual services	694.7		694.7	0.5				694.7		694.7	0.5
400	General operating expenses	16,869.2	9,845.4	7,023.8	5.4	11,239.9	8,877.0	2,362.9	28,109.1	18,722.4	9,386.7	7.2
500	Supplies and materials	780.8	104.8	676.0	0.5	113.8	89.9	23.9	894.6	194.7	699.9	0.5
600	Acquisition of furniture and equipment	473.1	167.1	306.0	0.2	187.5	148.0	39.5	660.6	315.1	345.5	0.3
700	EDP non-staff costs	4,164.1		4,164.1	3.2				4,164.1		4,164.1	3.2
800	Technical Cooperation and IDDA	13,676.7		13,676.7	10.6				13,676.7		13,676.7	10.6
900	Other expenditures	20,611.0	2.1	20,608.9	15.9	2,180.4	5,848.6	(3,668.2)	22,791.4	5,850.7	16,940.7	13.1
	Miscellaneous income		1,508.3	(1,508.3)	(1.2)					1,508.3	(1,508.3)	(1.2)
		145,898.6	16,357.9	129,540.7		19,601.7	19,601.7	0.0	165,500.3	35,959.6	129,540.7	

Table 3

Adjustment formula

	(A - 7)/Inc. (1)				Adjusted budget			
	US dollars			Austrian schillings	US dollars			Austrian schillings
Appropriations								
A. Policy-making Organs	551,100	+	(	79,092,200 /R)	506,500	+	(	71,970,400 /R)
B. General Management	2,592,700	+	(	101,668,900 /R)	2,372,700	+	(	117,164,200 /R)
C. Strengthening of Industrial Capacities	4,687,400	+	(	481,558,180 /R)	4,802,800	+	(	466,630,400 /R)
D. Cleaner and Sustainable Industrial Development	1,541,700	+	(	166,062,840 /R)	1,626,800	+	(	161,829,200 /R)
E. Regional Programme Management	12,163,500	+	(	100,364,600 /R)	12,582,400	+	(	98,456,700 /R)
F. Technical Cooperation Management	658,000	+	(	89,133,850 /R)	644,900	+	(	87,423,300 /R)
G. Administration	2,612,500	+	(	539,069,236 /R)	2,966,400	+	(	802,497,446 /R)
Subtotal appropriations	25,207,100	+	(	1,356,920,906 /R)	25,502,500	+	(	1,805,971,646 /R)
Estimated income								
E. Regional Programme Management	895,500	+	(	0 /R)	895,500	+	(	0 /R)
G. Administration	294,000	+	(	176,213,120 /R)	589,400	+	(	425,266,760 /R)
Miscellaneous	662,100	+	(	10,915,800 /R)	662,100	+	(	10,915,800 /R)
Subtotal estimated income	1,851,600	+	(	187,110,920 /R)	2,147,000	+	(	436,182,560 /R)
TOTAL NET REQUIREMENTS	**23,355,500**	+	(	**1,369,789,086 /R)**	**23,355,500**	+	(	**1,369,789,086 /R)**

Note 1: The net requirements shown above assume a ratio of 18 per cent in US dollars and 82 per cent in Austrian schillings at an exchange rate of US$ 1 = AS 12.90.

Note 2: R represents the average United Nations exchange rate for Austrian schilling to US dollar which will be experienced during 1998-1999.

Distr.
GENERAL

GC.8/13
27 August 1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November - 3 December 1999
Item 17 (e) of the provisional agenda

IMPLEMENTATION OF THE BUSINESS PLAN IN EUROPE AND NIS

Report by the Director-General

Provides highlights of UNIDO support to countries of Europe and NIS, including integrated programmes, funds mobilization, activities within the global forum function, and field representation

Introduction

1. The present document has been prepared in response to the decision of the Industrial Development Board to include an item on Europe and the Newly Independent States of the former Soviet Union (NIS) in the provisional agenda for the eighth session of the General Conference (IDB.21/Dec.15).

2. After showing strong signs of recovery in 1997, economic growth in the countries of Central and Eastern Europe (CEE) slowed down to an unexpected degree in 1998 and continues its decline in 1999. Reasons include the economic crises that hit the Russian Federation in mid-1998 and the slowdown of the economy in Western Europe. The collapse of Russian imports and weakened exports to Western Europe have deteriorated economic performance. The outbreak of the Kosovo conflict- which represented an unexpected negative shock for many transition economies-has undermined the economic prospects for a number of countries, especially those in south-east Europe. Economic performance in countries of the Commonwealth of Independent States (CIS) deteriorated in most cases which means that most of these countries will end the year 1999 in recession. Alongside these external factors, slow progress in industrial restructuring also contributes to reduced growth.

I. INTEGRATED PROGRAMMES

3. In developing the integrated programmes for countries of the region, efforts were taken to ensure consistency with the Business Plan and to respond to demand and development priorities. Full support was received from the respective Governments, UNDP country offices, and the public and private sectors. The programmes address national capacity-building for sustainable industrial development, international industrial partnerships for investment and technology promotion, entrepreneurship development and small and medium enterprise (SME) support, energy efficiency and renewable energy development, and cleaner production and waste management.

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V.99-87539 (E)

Distr.: 9 September 1999

4. To date, programmes have been developed for Armenia, the Russian Federation and Tajikistan. A programme for Uzbekistan is under way with a mission scheduled for the third quarter of 1999.

Armenia - Integrated programme to support Armenian industry and increase its contribution to sustainable livelihoods and sustainable development.

5. The challenge is to help Armenia complete its transition to a market economy, with employment creation and income generation as priorities. This is to be achieved via targeted support services focusing on sustainable livelihoods and sustainable development, complemented by support to corporate governance, that are harmonized with the United Nations Resident Coordinator's strategy for the country. The overall objective of the UNIDO approach is to maximize the value added of industry's contribution to Armenia's own efforts to foster employment.

Russian Federation - Integrated programme to support sustainable development of the industrial sector.

6. The programme focuses on developing and implementing large-scale projects in selected Russian regions (Moscow oblast, St. Petersburg, Republic of Bashkortostan and Republic of Komi) and was developed in close cooperation with the federal Government and regional administrations and with the involvement of the private sector. To support the implementation of the programme and to establish a strategic partnership with UNDP, a letter of agreement was signed with the UNDP country office in the Russian Federation.

Tajikistan - Integrated programme for industrial growth and competitiveness development.

7. The objective is to assist in making the industrial sector a vehicle for economic recovery and growth based on comparative advantages and an efficient source of income generation and employment opportunity, as well as to increase attractiveness for foreign investors. The programme focuses on strengthening capacity and capabilities in coping with the aftermath of the long civil war, accelerating systemic transformation, economic stability, continuous industrial restructuring and rehabilitation and private sector development.

II. POST-EMERGENCY COUNTRIES

8. UNIDO has also contributed to inter-agency activities designed to strengthen, within the framework of the United Nations Resident Coordinator system, the system-wide response to post-crisis situations. The response has included services from a range of UNIDO core competencies, including investment promotion, technology promotion, entrepreneurship development, cleaner production and food processing. The current approach - for example in neighbouring countries affected by the Kosovo crisis (Albania, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia) - draws on UNIDO's experience from active inter-agency participation in earlier post-emergency situations such as those in Bosnia and Herzegovina and in areas effected by the Chernobyl accident. In these activities, UNIDO makes every effort to take full advantage of the knowledge and experience in other parts of the region that can be efficiently and effectively applied in the specific post-crisis situations.

III. FUNDS MOBILIZATION

9. Efforts are continuing to mobilize funding for programmes in the region. Particular attention is given to new possibilities of financing which arise from non-traditional sources of funding, including from emerging donors within the region. The speed of transition to market economy in the region varies from country to country depending on the initial economic position and the determination to proceed with restructuring and privatization. The Czech Republic, Hungary and Poland have become members of the Organisation for Economic Cooperation and Development, and together with Estonia and Slovenia are included in the group of countries that are on the fast track of negotiation to become members of the European Union. As the most advanced in the transition process, these five countries have attained a position that enables them to become emerging donors for technical assistance to other countries that still have a longer way to go. UNIDO was able to gain the cooperation of Hungary in funding projects in Pakistan, Romania and the African region. The Czech Republic provides financing for projects in Croatia and Ukraine. Slovenia is funding a project to establish an international centre for sustainable industrial development for the region. Poland is considering joining this group of emerging donors. In addition, for many years UNIDO has been operating the Centre for International Industrial Cooperation in Moscow and the Investment and Technology Promotion Office in Warsaw, which are entirely financed by the Governments of the Russian Federation and Poland respectively. Both offices are effectively promoting projects with foreign partners and mobilizing funds for industrial cooperation and investment.

10. Another non traditional source of funding that is being explored, particularly in the context of the integrated programme for Armenia, is from private foundations and non-governmental organizations (NGOs). While UNIDO has cooperated in Armenia in the past with the private

sector in this manner, the potential for this source has not been fully utilized.

11. Although the sources of financing described above are a particular feature of UNIDO activities in the region, there is also scope for more traditional funding approaches. The countries of the region are encouraged to utilize their own resources under self-financing trust fund agreements and by attracting funds from interested private sector entities. Austria, Greece, Japan, the Netherlands, Switzerland and the United Kingdom are other countries that are currently financing UNIDO projects in CEE and NIS countries.

IV. GLOBAL FORUM FUNCTION

12. As is the case in other regions, not all CEE and NIS countries are benefiting from rapid globalization. Beneficiaries are those countries that have advanced in their transition to market economy and are gradually integrating in the Western European and world markets. Others have not yet been able to take advantage of globalization in their development. To avoid increasing disparities in the region resulting from globalization, UNIDO is helping those countries to better prepare for the challenges of a global market, enabling them to share the benefits of globalization. UNIDO services for SME development, entrepreneurship development, investment promotion, technology transfer, enhancement of competitiveness and cleaner production can assist economies that have been hitherto neglected by the private actors in the global market to attract foreign investment and industrial cooperation.

13. Cooperation with NGOs in the region is being strengthened. These NGOs serve as excellent agents for promoting UNIDO cooperation with enterprises, particularly SMEs, and with scientific circles. For example, a regional conference on industrial development and economic cooperation in the region organized with the International Congress of Industrialists and Entrepreneurs with participation from the private sector served as an excellent platform for UNIDO to reach out to entrepreneurs as the main actors and decision makers in a market-oriented economy. NGOs are also important partners for the implementation of technical cooperation projects that aim at fostering entrepreneurship. These NGOs can be chambers of commerce and industry, business associations, or universities and can serve as hosts for projects on investment promotion, business advisory services, or cleaner production. UNIDO projects in the region are essentially directed towards assistance in the economic transformation process. This requires keeping in touch with the business community as the prime transmission belt to improve the competitiveness and sustainability of industry.

V. STRENGTHENING THE FIELD

14. In addition to the establishment of a country office in Almaty, Kazakhstan, UNIDO has developed a comprehensive network of national focal points throughout the region that serve as excellent channels of communication and coordination with Governments and industry. These focal points are nominated by the Government and remain part of a ministerial structure (Bulgaria, Croatia, Hungary, Russian Federation, Ukraine), or are established outside governmental structures but are fully financed by the Government (Romania), or are co-financed by UNIDO and the Government and are established in the United Nations house or local UNDP office (Turkey, Uzbekistan). To facilitate effective implementation of the integrated programme for Armenia, action has been taken to field an Associate Expert or Junior Professional Officer to that country.

VI. ACTION REQUIRED OF THE CONFERENCE

15. The Conference may wish to take note of the information provided in the present document.

Distr.
GENERAL

GC.8/14
27 August 1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November - 3 December 1999
Item 17 (c) of the provisional agenda

IMPLEMENTATION OF THE BUSINESS PLAN IN ASIA AND THE PACIFIC

Report by the Director-General

Updates the information provided in document IDB.20/14, in compliance with decision IDB.20/Dec.9 and further to General Conference resolution GC.7/Res.8.

Introduction

1. Since the issuance of document IDB.20/14, submitted in response to General Conference resolution GC.7/Res.8, the most significant development in UNIDO activities for Asia and the Pacific has been the formulation of integrated programmes for selected countries. The present report highlights the status of country coverage in the region.

I. INTEGRATED PROGRAMMES

2. As an initial phase in the application of the new UNIDO service modules in Asia and the Pacific, integrated programmes have been developed for India, Sri Lanka and Thailand, while the programme for the Islamic Republic of Iran is currently under preparation. These will be followed by programmes for a second group of countries (Lao People's Democratic Republic, Nepal and Pakistan).

India

3. The automotive component industry in India is characterized by a large number of small entrepreneurial enterprises with low-volume production of varying quality. These conditions have, in part, inhibited effective vertical supply linkages from evolving between tier component suppliers at different levels of the supply chain, thus creating a highly fragmented market through which automobile manufacturers must operate. Low local content and domestic value added of new automobiles on the road in India is a testimony to this fact.

4. In response, UNIDO has taken the leadership in developing a partnership programme linking multinational corporations, local and international non-governmental organizations, universities and the Government. India is the first country in which the programme is being applied, with the objective of strengthening the supply chain among small and medium enterprises in the automotive component sector through technical cooperation. Under

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V.99-87545 (E)

Distr.: 9 September 1999

the auspices of the Government of India, the partnership consists of the Fiat Group, the European Institute of Business Administration (INSEAD), the Prince of Wales Business Leaders Forum, the Automotive Component Manufacturers Association of India, the Automotive Research Association of India and UNIDO.

5. The programme takes advantage of the wealth of know-how, technology and experience of each partner as a building block for the formulation and delivery of an integrated package of solutions for the automotive component sector. Through a demonstration approach, supported by inter- and intra-regional outreach programmes, expert advice in areas such as management, quality, productivity, market access, supply-chain and partnership identification, employment, and socially responsible investment, are provided to local enterprises at the shop-floor level. The programme expects to help increase the capability to produce export-quality components as well as the number of small and medium component suppliers producing such quality products. Small and medium enterprises in India will benefit from being linked to the subcontracting networks of multinational corporations.

Islamic Republic of Iran

6. Over-dependence on oil and gas exports has rendered the country's economy highly vulnerable to fluctuations in international energy prices, and has imposed a severe constraint on the Government during the past two decades. A diversification of the country's export structure through the concerted development of its export-oriented manufacturing capacity could offer a viable alternative, as also stipulated in the country's Second Socioeconomic and Cultural Development Plan, by increasing the resilience of its economy against external shocks, supporting employment creation and technological innovation, and adding domestic value to its rich natural resource base, thereby enhancing overall economic performance.

7. In this context, the objective of the integrated programme is to design and implement a package of technical cooperation services for the industrial sector which will enhance the entire socio-economic development effort of the country. To this effect, agreement was reached with the national authorities on the nature, scope and focus of the proposed integrated package, and commitment and ownership were secured from the national counterparts. A draft package of services is currently under formulation comprising the following components: (a) strengthening institutional capacities in support of small and medium enterprises; (b) modernizing agro-based industries; (c) industrial energy efficiency; (d) environment protection; and (e) capacity-building in industrial investment.

8. This draft approach will be critically examined and adjusted to rationalize and create synergy among the various components proposed for inclusion in the integrated programme.

Sri Lanka

9. Recognizing the achievements made by the country in recent years, and with the ambition of becoming classified as a "newly industrialized country" early in the next century, the Government requested UNIDO assistance in formulating an integrated industrial development support programme. Based on the analysis of the country situation and discussions with respective government and private sector organizations, a comprehensive industrial development support programme has been formulated, based on the following approach:

(a) Cooperating with and providing substantive complementary technical inputs to the ongoing Master Plan for Industrialization and Investment Promotion of the Japan International Cooperation Agency (JICA). UNIDO intervention would lead in particular to the formulation of a new industrial policy, restructuring and capacity-building at the Ministry of Industrial Development, improving capabilities in the area of industrial statistics and benchmarking, and carrying out pilot restructuring activities in the apparel and leather sectors;

(b) The success of recent years in the manufacturing sector is largely due to the phenomenal growth of apparel exports, aided partly by the Multifiber Agreement. The Agreement will be abolished in the year 2005, and the apparel subsector will be exposed to competitive pressures. It is necessary to develop a strategy and a support framework to enhance the competitiveness of the apparel sector to effectively face the emerging threat;

(c) The realization of the key development objectives in the country—poverty alleviation, employment generation and regional development—relies on rural industrialization and vigorous promotion of micro, small and medium enterprises. Significant assistance is required in developing the capacities and capabilities related to the promotion and development of these enterprises.

Thailand

10. The financial crisis of July 1997 rapidly spread to the real economy, where it exposed major structural deficiencies. In response to the crisis and to mitigate its social effects, the Government launched a multi-pronged restructuring programme encompassing the financial, social, agricultural and industrial sectors. With regard to the industrial sector in particular, the Government is undertaking a major effort to restore the competitiveness

of domestic firms. The Government called upon UNIDO to support its industrial recovery efforts, with a broad range of cooperation requests.

11. The programme represents UNIDO's integrated response, and covers the following priority components: (a) industrial restructuring for competitiveness; (b) agro-based industries with emphasis on leather, wood and food; and (c) cleaner environment. The components will be promoted on a priority basis and UNIDO has allocated funds for preparatory assistance activities. Two support components have been identified and will be promoted at a later stage, subject to availability of funds: investment promotion, and monitoring the socio-economic impact of the Industrial Restructuring Master Plan.

II. FUNDS MOBILIZATION

12. To ensure success in the implementation of the integrated programmes, particular attention is being devoted to the mobilization of financial resources. In this regard, UNIDO has allocated seed money for all programmes. Furthermore, all recipient countries and UNIDO have jointly developed and started implementing funds mobilization activities. While funding opportunities and type of donors vary from country to country, a common feature of all has been the effort of recipient countries to assist in identifying and accessing funds available at the country level, particularly from bilateral sources. In this context, the promotion of the programme for Sri Lanka has been particularly successful. Through the strong commitment of the Government towards the integrated programme approach and the cooperation activities identified jointly with UNIDO, a total of some $2.1 million has been mobilized in a relatively short period of time.

13. As the next step, it is recommended that Member States support UNIDO in pursuing a similar approach for other countries and that they ensure the same level of commitment in order to translate the integrated programmes into action and provide impact at the country level.

14. Furthermore, it is recommended that recipient countries assist UNIDO in identifying and accessing other funds available at the country level, particularly from UNDP, the World Bank and other development finance institutions as well as the European Union. Official requests from the recipient country are a precondition for accessing funds from these institutions.

15. Beneficiaries of integrated programmes, particularly middle income countries, should also contribute through cost-sharing as an indication of their commitment to and ownership of the activities jointly developed and as a leverage for the mobilization of bilateral and multilateral funding.

16. Finally, it is important to note that in Asia and the Pacific UNIDO has identified considerable potential for playing an important role in supporting Governments and UNDP in the identification and formulation of capacity-building projects suitable for financing by the Global Environment Facility (GEF). Such programme components are in line with the focus area of GEF relating to climate change (energy efficiency and rural energy development), an area which, according to the findings and recommendations of the last Council of GEF, requires building a stronger pipeline of eligible projects. UNIDO appeals to its Member States to support the Secretariat's efforts to expand cooperation with GEF both at the national level as well as the level of GEF headquarters.

III. ACTION REQUIRED OF THE CONFERENCE

17. The Conference may wish to take note of the information provided in document IDB.20/14 as well as in the present report.

Distr.
GENERAL

GC.8/15
IDB.21/30
31 August 1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November - 3 December 1999
Item 11 (g) of the provisional agenda

Industrial Development Board

Resumed twenty-first session
Vienna, 29 November 1999
Agenda item 4 (j)

IMPLICATIONS OF THE EURO FOR UNIDO

Report by the Director-General

Reports on the budgetary, operational and financial aspects of the adoption of a single-currency system of assessment based on the euro, in compliance with decision IDB.21/Dec.8.

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V.99-87586 (E)

Distr.: 14 September 1999

Introduction

1. At its fifteenth session, the Programme and Budget Committee adopted conclusion 99/1, in which it decided to add an item to the agenda of its fifteenth session entitled "Implications of the euro for UNIDO", to be the sole item of discussion at a resumed session on 23 June 1999. At its resumed session, the Committee considered a note by the Secretariat on implications of the euro for UNIDO that contained a memorandum on that subject submitted by the European Union (PBC.15/15-IDB.21/29). After taking note of the document, the Committee decided to refer the matter to the Industrial Development Board at its twenty-first session for its consideration.

2. The Industrial Development Board, at its twenty-first session, took note of documents IDB.21/29 and IDB.21/14/Add.1, and requested the Director-General to prepare, before 15 September 1999, a report examining budgetary, operational and financial aspects of the adoption of a single-currency system of assessment based on the euro, for the fiscal period 2002-2003 and in future bienniums (IDB.21/Dec.8). The Board also enlarged the mandate of the intersessional working group on proposed amendments to the financial regulations to discuss all aspects of the possible adoption of a single-currency system of assessment based on the euro, and requested the group to submit its conclusions to a resumed twenty-first session of the Board, for submission to the eighth session of the General Conference, with a view to taking appropriate action and a decision.

3. The present document is submitted in compliance with the above Board decision. In addition to examining budgetary, operational and financial aspects, the report provides information on the euro, action taken by UNIDO, the present split-currency system of assessment, and practices in other United Nations organizations and specialized agencies. In this connection, reference may be made to a 1987 review of alternative systems of stating budget estimates and assessing Member States and relevant experience within the United Nations system (PBC.3/10).

I. THE EURO

4. The euro was introduced with effect from 1 January 1999 to replace the national currencies of eleven participating countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. With this introduction, the Austrian schilling has become a sub-unit of the euro and the exchange rate between the schilling and euro has been fixed at euro 1 = ATS 13.7603. Any amount in schillings can now be converted into euros and vice versa without being considered as a foreign exchange transaction. The single currency means that there is now only one monetary policy with one interest rate for all 11 Euro Zone economies, whereas previously there were 11 independent monetary policies.

5. Euro notes and coins will be introduced on 1 January 2002. The Austrian schilling will, therefore, continue to exist alongside the euro until 31 December 2001, i.e. until the end of the transition period. On 1 January 2002, the process for the replacement of schillings will start, which must be concluded within six months, and by 1 July 2002 the schilling will be fully replaced by the euro.

6. During the transition period, there is a policy of "no compulsion; no prohibition", which means that there is complete freedom to use the euro and/or the national currency for the purpose of transactions. However, there will be no such option effective 1 January 2002, and all accounts, contracts, financial balances, etc. will be converted into euros by law.

7. The transition period is being used by the participating countries to prepare for the replacement of their national currencies by the euro. Many changes are already visible, as financial institutions, suppliers, vendors, etc. have started providing/displaying information in the national currencies as well as in euros. Many suppliers/contractors have also started invoicing in euros.

II. ACTION TAKEN BY UNIDO

8. UNIDO has been taking necessary actions to introduce the euro and to fully replace the Austrian schilling by the end of 2001. Actions taken to date include:

(a) Funds received in schillings are being acknowledged both in schillings and euros;

(b) Member States are being informed of their obligations in both currencies (i.e. schillings and equivalent euros);

(c) Requests for payment in euros are being honoured in that currency;

(d) Member States' obligations to the regular budget for the biennium 2000-2001 have been shown in Austrian schillings and euros;

(e) Assessment letters have been amended to reflect both currencies;

(f) Review initiated of necessary modifications to the financial regulations resulting from the disappearance of the schilling (also specified in paragraph 8 of document IDB.21/3-PBC.15/3).

9. Further action by UNIDO depends on whether Member States decide that UNIDO should continue with the split-currency system of assessment, or move to a 100 per cent euro-based system. Implications of both scenarios are discussed in paragraphs 18 to 39, and are summarized in annex I to the present document.

III. SPLIT-CURRENCY SYSTEM OF ASSESSMENT

10. Until the end of the biennium 1986-1987 (in its first biennium as a specialized agency), UNIDO had a single-currency system of assessment based on the United States dollar. Serious problems emerged when the dollar depreciated by some 34 per cent against the Austrian schilling (from USD 1 = ATS 17.50 in January 1986 to ATS 11.50 by December 1987). Since most expenditures were (and are) in Austrian schillings/euros, this depreciation caused a financial crisis for the Organization. A supplementary estimate of $3.1 million for the 1986-1987 regular budget had to be approved to offset the net shortfall of resources resulting from the depreciation of the dollar (GC.2/Dec.20).

11. To avoid a recurrence of such a situation and to reduce the impact of exchange rate fluctuations in general, the governing bodies of UNIDO approved a split-currency system of assessment effective 1 January 1988. Under this system Member States pay their contributions in the currency of actual expenditures (GC.2/Dec.21 and GC.2/Dec.22). Thus, the Organization is not exposed to any major problems resulting from exchange rate fluctuations. Based on the system in effect since 1988-1989, the dollar and schilling/euro contributions are set at 18 and 82 per cent respectively in the current biennium, and also form the basis for the programme and budgets for 2000-2001.

12. In budgetary terms, the split-currency system effectively resolves the problem of currency fluctuations in that it fixes the amount Member States are obliged to pay in dollars and in local currency (schillings/euros) at the level of the estimated requirements of UNIDO for these currencies. Thus, at the time of budget approval, Member States commit themselves to providing the resources required for the work programme. The main features of the split-currency system of assessment are:

(a) Obligations of Member States are fixed in two main currencies of expenditures;

(b) Budget estimates are prepared using the currency considered best suited to each type of expenditure;

(c) For budget presentation, local currency (schillings/euros) is converted into United States dollars at a specified rate of exchange (USD 1 = ATS 12.90) selected for ease of comparing estimates for a given year with budget for previous years;

(d) Appropriations and assessments of Member States are established in two currencies: one amount in local currency (schillings/euros) equal to expected local currency requirements and remainder in United States dollars;

(e) Risk of loss from foreign exchange is minimized.

13. Difficulties arising from the split-currency system include:

(a) Budget preparation is cumbersome owing to the need to determine in advance the ratio of schillings/euros and dollars;

(b) For budget performance monitoring, schilling expenditures are converted to dollars at the rate applied in the budget (USD 1 = ATS 12.90), whereas the same expenditures are recorded in the accounts at the monthly United Nations rate of exchange applicable at the time of payment, thus complicating analysis and comparison;

(c) The recording of transactions at the budget rate and the United Nations rate of exchange results in book gains and losses, further complicating analysis.

Effect on assessed contributions

14. At present, Member States are assessed 18 per cent of the approved regular budget in United States dollars and 82 per cent in Austrian schillings/euros. In accordance with financial regulation 5.5(e), Member States are required to pay their assessed contributions in dollars or Austrian schillings provided that any payment shall be credited on a pro-rata basis to the dollar and schilling obligation at the United Nations rate of exchange in effect at the time the payment is received. Member States are subject to the following types of exposure:

(a) Their payments must cover 18 per cent dollar and 82 per cent schilling/euro contributions;

	Organization	Currency of assessment	Currency of accounting/reporting
Split currency	IAEA, UNIDO	USD and ATS	USD
	UNESCO	FRF and USD	USD
Single currency	CTBTO, FAO, ICAO, UN, WHO	USD	USD
	ILO	CHF	USD
	IMO	GBP	GBP
	ITU, UPU, WIPO, WMO	CHF	CHF
	OPCW	NLG	NLG

(b) Should both the dollar and schilling/euro contributions not be received during the same month, exchange losses/gains result from the application of the United Nations rate of exchange, thus leading to either an additional payment to be made by Member States, or an overpayment that is applied to the following year's assessed contributions. This often requires explanation from the Secretariat.

15. Outstanding assessed contributions in schillings are periodically converted to dollars using the applicable monthly United Nations rate of exchange. Therefore, outstanding amounts fluctuate from month to month without a real change in contributions, rendering comparison difficult.

IV. OTHER ORGANIZATIONS

16. Practices in some United Nations and other international organizations are summarized above. As can be seen, there is no uniformity and organizations have adopted different practices depending on their requirements or decisions by their governing bodies. The following table shows a number of organizations applying respective split-currency and single-currency systems, and annex II shows in tabular form the currencies of assessment and of accounting and reporting, proportion of expenditures in currencies and how exchange gains and losses are handled, including protective measures.

17. The United Nations International Drug Control Programme (UNDCP) does not have a system of assessment, as the budget is financed from voluntary contributions, with accounting and reporting in United States dollars.

V. THE ISSUE

18. In addition to the action already taken (para. 8), certain adjustments will be required to address the change from schillings to euros following the transition period, i.e. effective 1 January 2002. It should be emphasized that the 82 per cent now in Austrian schillings must inevitably be changed to euros effective 1 January 2002. However, the key issue relates to the split-currency system of assessment presently in use versus the single-currency system based on the euro. In other words, the question is whether the present 18 per cent of the budget and assessed contributions in United States dollars should also be budgeted and assessed in euros.

A. Replace schillings with euros under the split-currency system

19. Should Member States decide that UNIDO should remain with the split-currency system of assessment, the implications for the budgetary, operational and financial aspects would be minimal. A number of changes, as elaborated in paragraph 8, have already been introduced. There would be no implications for current budgetary practices or financial aspects other than amending the financial regulations to replace references to the Austrian schilling by the euro. Limited changes in the computerized financial systems and contractual obligations would be necessary (paras. 21 and 22).

Financial regulations

20. The following financial regulations would require amendments for which approval by the General Conference would be needed:

Regulation	Current text	Proposed text	Comments
Appropriation and assessment			
5.1(d)	"Each assessment shall be established in a component in United States dollars and the remainder in Austrian schillings in direct proportion to the respective shares of regular budget expenditures determined by the Conference, upon recommendation of the Director-General, to be linked to these two currencies."	"Each assessment shall be established in a component in United States dollars and the remainder in euros in direct proportion to the respective shares of regular budget expenditures determined by the Conference, upon recommendation of the Director-General, to be linked to these two currencies."	Reference to Austrian schillings will be replaced by euros.
Collection of contributions and advances			
5.5(e)	"Contributions to the regular budget are established in United States dollars and Austrian schillings in the ratio determined in accordance with regulation 5.1(d). Payments may be made in either or both of these currencies provided that any payment shall be credited on a pro-rata basis to the dollar and schilling obligation at the United Nations accounting rate of exchange in effect at the time the payment is received."	"Contributions to the regular budget are established in United States dollars and euros in the ratio determined in accordance with regulation 5.1(d). Payments may be made in either or both of these currencies provided that any payment shall be credited on a pro-rata basis to the dollar and euro obligation at the United Nations accounting rate of exchange in effect at the time the payment is received."	References to Austrian schillings will be replaced by euros.

Computerized systems

21. Necessary changes in the computerized financial systems and reporting have been or are being made to introduce the euro. By the end of the transitional period (31 December 2001), UNIDO's financial systems are expected to be ready to use the euro instead of the schilling. These changes should be implemented as part of normal programme maintenance and system improvements, and thus the Secretariat expects to be able to handle the euro on 1 January 2002.

Contractual obligations

22. Contractual obligations and other commitments in Austrian schillings would need to be changed/converted to euros. No major problems are foreseen in this respect, as the exchange rate between the two currencies has already been fixed (effective 1 January 1999: euro 1 = ATS 13.7603).

B. Introduce a euro-based single-currency system

23. At present, UNIDO accounting and reporting are in United States dollars. The introduction of the euro as a single-currency system of assessment would have a number of budgetary, operational and financial implications.

24. The most important budgetary implication would be that both the regular and operational budgets would be prepared and presented in euros.

25. Another major implication would be that UNIDO would have to record and report financial transactions in two currencies:

(a) Euros: For the regular and operational budgets, consolidated financial statements, and reports to donors (if required);

(b) United States dollars: For extrabudgetary activities (mainly technical cooperation) and reports to donors.

26. Although the operational budget is financed through support cost reimbursement on extrabudgetary activities and income from technical services, in order to facilitate unified budgeting and accounting for both the regular and operational budgets, the latter would also have to be recorded and reported in euros. This implies that income, which is normally received in dollars, would be recorded in euros.

27. The regular budget is financed through assessments. The main features of a single-currency system would be:

(a) A system of assessment entirely in local currency would be relatively simple and straightforward in application, especially with respect to reporting;

(b) Member States would know precisely the amount of their assessed contributions at the time the assessment is levied;

(c) Most expenditures, which would be paid in euros, would be recorded and reported in the same currency.

28. Some difficulties could be expected with a single currency system, including:

(a) A residual risk from exchange rate fluctuations will always remain. A mechanism similar to those introduced by other organizations (such as a special reserve fund or forward purchasing contracts) would need to be applied to protect the Organization;

(b) A local currency-based system may complicate comparison of budgets with those of previous years and with the budgets and assessments of other organizations;

(c) UNIDO would have to introduce a dual currency accounting system in which both euros and dollars could be equally used as the base currency. A new accounting software would be required to handle transactions and present reports in both currencies (paras. 25 and 38).

Protection against exchange rate fluctuations

29. UNIDO would continue to use dollars (presently 18 per cent requirement) to meet dollar-based obligations (such as costs for the field offices or settlements with the United Nations Development Programme and the United Nations). Therefore, risks arising from exchange rate fluctuations would remain. However, it is not expected that the Organization would be exposed to significant exchange rate fluctuation risks, as experienced during 1986-1987 when the single-currency system of assessment was based on dollars and most expenditures were in schillings (paras. 10 and 11). The exchange risk could further be reduced by minimizing the current dollar-based expenditures. However, it would not be possible to eliminate all such transactions and associated risks.

30. Therefore, a mechanism would be required to protect the Organization from exchange rate fluctuations. As shown in annex II, this practice has already been adopted by a number of organizations.

31. To minimize dollar expenditures, some major items such as those listed below could be settled in euros instead of dollars, thereby reducing exposure to exchange rate fluctuations. These figures should, however, be treated with caution as negotiations and agreements with other parties would be required:

(a) Contributions to the United Nations Joint Staff Pension Fund: UNIDO pays the Fund in dollars, which represent about 5 per cent of the dollar expenditures. The Pension Fund is expected to accept these contributions in euros. This would, however, require negotiation and agreement;

(b) Staff salaries: Staff are entitled to receive a portion of their salaries in dollars, which represents about 2 per cent of the dollar exposure. Headquarters staff could be paid in euros only.

Effect on assessed contributions

32. Under a single-currency system, Member States would be required to pay 100 per cent of their assessed contributions in euros, and there would be no exposure to dollars. Should these contributions be paid and recorded in euros, no exchange gains or losses would result from the application of these payments, which would represent an improvement over the present system (para. 14).

33. Outstanding assessed contributions would be shown consistently in one currency, making information realistic and comparable.

Financial regulations

34. The following financial regulations would require amendment, for which approval by the General Conference would be needed. A number of related financial rules would also require amendment, which would be carried out by the Director-General after approval by Member States of the introduction of a single-currency system.

Financial regulation	Current text	Proposed text	Comments
Preparation of the budgets			
3.2	"The financial estimates shall cover income and expenditures for the fiscal period to which they relate and shall be presented in United States dollars."	"The financial estimates shall cover income and expenditures for the fiscal period to which they relate and shall be presented in euros."	Reference to United States dollars would be replaced by euros.
Appropriation and assessment			
5.1(d)	"Each assessment shall be established in a component in United States dollars and the remainder in Austrian schillings in direct proportion to the respective shares of regular budget expenditures determined by the Conference, upon recommendation of the Director-General, to be linked to these two currencies."	"Each assessment shall be established in euros."	References to Austrian schillings and United States dollars would be replaced by euros. Reference to split-currency element would be deleted.
Collection of contributions and advances			
5.5(d)	"Advances to the Working Capital Fund shall be assessed and paid in United States dollars."	"Advances to the Working Capital Fund shall be assessed and paid in euros."	Reference to United States dollars would be replaced by euros.
5.5(e)	"Contributions to the regular budget are established in United States dollars and Austrian schillings in the ratio determined in accordance with regulation 5.1(d). Payments may be made in either or both of these currencies provided that any payment shall be credited on a pro-rata basis to the dollar and schilling obligation at the United Nations accounting rate of exchange in effect at the time the payment is received."	"Contributions to the regular budget are established in euros."	References to Austrian schillings and United States dollars would be replaced by euros. Reference to split-currency element would be deleted.
Currency of accounts			
10.5	"The accounts of the Organization shall be presented in United States dollars. Accounts and accounting records may, however, be kept in such currency or currencies as the Director-General may deem necessary".	"The accounts of the Organization shall be presented in euros. Accounts and accounting records may, however, be kept in such currency or currencies as the Director-General may deem necessary".	Reference to United States dollars would be replaced by euros.

Staff regulations

35. No amendment to the staff regulations would be required. However, schedule I of the staff regulations referred to in staff regulation 6.1, which shows salary scales for the professional and higher categories in United States dollars, would need to be supplemented to show amounts in euros. The same principle would apply to other elements of remuneration presently shown in United States dollars, such as schedule III (staff assessment) and annex I (dependency allowances).

Exchange rate for conversion of existing dollar-based amounts

36. All assets, liabilities, fund balances and reserves–which are presently shown in United States dollars–would require conversion into euros on 1 January 2002. Most of these balances would be converted using the United Nations rate of exchange applicable at that time. However, a General Conference decision would be required to convert outstanding assessed contributions, fund balances and surpluses. In so doing, the current policy of applying the average exchange rate for the three-year period could be adopted (for instance, the average dollar/euro exchange rate during 1999 through 2001). This would be similar to the current policy for the conversion of Austrian schillings into United States dollars, under which the schilling arrears of the previous biennium are converted to dollars (IDB.7/Dec.7). (For example, the schilling arrears of the biennium 1996-1997 were converted to dollars using the average exchange rate for the three-year period 1996 to 1998.)

37. In line with established practice, the budgetary rate of exchange for the biennium 2000-2001 continued to be USD 1 = ATS 12.90. An exchange rate would be essential to convert the 2000-2001 budget to euros to ensure a realistic comparison with the budgets of future periods.

Computerized systems

38. As stated in paragraphs 25 and 28 (c) above, records and reporting would have to be in both euros and United States dollars. Specifically, the need would be to produce regular and operational budget reports and consolidated financial statements in euros, statements on extrabudgetary activities in dollars and euros, and financial statements to donors in dollars and/or euros. Therefore, an appropriate computerized financial system would have to be introduced by 31 December 2001. The work could take at least two years provided sufficient resources are made available to undertake such a task. Currently, UNIDO is evaluating various computerized information systems to improve overall performance, and a dual currency feature would become a major consideration. The scope and estimated costs of introducing a dual-currency accounting system would have to be studied.

Contractual obligations

39. Current major contractual obligations and other commitments in United States dollars–such as CCAQ, JIU, the loan from the United Nations and other inter-agency charges–would need to be negotiated with other parties for conversion to euros to the extent possible.

VI. CONCLUSION

40. The central issue is whether the 18 per cent of assessments at present in United States dollars should be assessed in euros. If Member States decide to do so effective 1 January 2002, the question of timing is critical. A decision on whether to move at that time to a euro-based single-currency system of assessment is required by the General Conference at its eighth session for the following reasons:

(a) The programme and budget proposals for the biennium 2002-2003 will have to be prepared during the period 2000-2001 for consideration by the Programme and Budget Committee and the Industrial Development Board before submission to the General Conference at its ninth session towards the end of 2001.

(b) Requisite changes in the payroll, accounting, financial and other computerized systems could take approximately two years. These changes would be essential to ensure that all systems have the facility for both euro and dollar accounting and reporting, and they would need to be introduced before December 2001.

(c) Necessary negotiation with other parties to minimize dollar exposure, and to establish a mechanism to deal with exchange rate fluctuations.

VII. ACTION REQUIRED OF THE BOARD

41. Within the framework of its decision IDB.21/Dec.8, the Board may wish to take note of the information provided in the present document, and of the conclusions to be submitted by the open-ended intersessional working group, and to make an appropriate recommendation to the General Conference.